Commonwealth of Massachusetts
DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT
Mitt Romney, Governor ◆ Kerry Healey, Lt. Governor ◆ Jane Wallis Gumble, Director

November 24, 2004

Dear Executive Director:

Enclosed you will find a copy of Fiscal Year '05 Budget Guidelines, effective July 1, 2004 or at the start of your local housing authority's fiscal year.

Due to the federal requirement to implement Generally Accepted Accounting Principles (GAAP), your books, financial reporting and budgets must be converted to GAAP. As a result of these changes, DHCD has determined that local housing authorities will use the Enterprise Method which requires full accrual accounting. The Budget Guidelines explain the changes that affect the budget and provide new budget forms to comply with GAAP. Detailed instructions and explanations are provided in DHCD's Accounting Manual for State-Aided Programs. Please complete your budget submission in accordance with the revised timetable on page 5 of the guidelines.

Although the Governor provided DHCD with an appropriation of $30.2M, an increase in the operating subsidy account of nearly $5M over FY04, utility rate increases of approximately 22% caused the operating subsidy need to exceed available funding. The Governor proposed in his Supplemental Budget additional funding for operating subsidy in the amount of $5M. Unfortunately, this amount was reduced to $1.65M by the legislature and the shortfall was not funded. Given the unprecedented increases in utility costs, the Department can not fund an increase in the non-utility expense level of authority budgets.

We encourage housing authorities to continue your efforts to think of innovative ways to operate and generate more income, such as retaining income from cell tower leases, sharing in energy savings and aggressive rent collections. As the guidelines confirm, innovative thinking and planning for both the Department and LHAs is now more important than ever.

Let me take this opportunity to thank you for all the additional effort you are expending this year to maintain our joint commitment of providing quality housing for low-income persons. Although you are continually being asked to do more with less, please be assured we appreciate your hard work and dedication.

Sincerely,

Jane Wallis Gumble
Director

100 Cambridge Street, Suite 300
Boston, Massachusetts 02114

www.mass.gov/dhcd
617.573.1100

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Public Housing Notice 2004-11

LOCAL HOUSING AUTHORITY

FY 2005 BUDGET GUIDELINES

NOVEMBER, 2004

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I. INTRODUCTION

These Budget Guidelines apply to fiscal year 2005 which begins July 1, 2004 and includes LHAs with budget year's of July 1, 2004–June 30, 2005, October 1, 2004–September 30, 2005, January 1, 2005-December 31, 2005, and April 1, 2005–March 31, 2006.

It is the responsibility of the LHA to understand these Budget Guidelines in their entirety and to implement them effectively. DHCD staff is available to explain any part of the Guidelines that is unclear to you.

There a number of points to be made about the Guidelines this year. Some of the most important are as follows:

- The Commonwealth of Massachusetts is required to use the GAAP (Generally Accepted Accounting Principles) accounting format for financial reporting. As a result, DHCD and local housing authorities must use the GAAP Accounting format. GAAP Accounting provides for two forms of reporting, either governmental or enterprise.

  GASB' s (Governmental Accounting Standards Board) Codification, Section 1300.104, states that the enterprise fund type may be used:

  - *To account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic income determination or revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability or other purposes.*

  Further reasons for using the enterprise version are as follows:

  1. It is the best and most accurate form for statement presentation.
  2. It is the HUD-preferred version, and thereby, will make LHA statements uniform across the Commonwealth.
  3. It is the format preferred by lending and other financial institutions.

  DHCD believes a housing authority resembles the enterprise fund model which provides for the use of full accrual accounting. Accordingly, DHCD is requiring that all LHAs adopt the **enterprise** requirements of GAAP. (See DHCD' s Accounting Manual for State-Aided Programs, Section 19 for further detail.)

- The accounting reporting forms have been changed to conform with GAAP. Form 050-1, Annual Budget, Appendix B; Operating Subsidy Calculation ANUEL Worksheet, Appendix C; Operating Reserve Analysis, Appendix D. Forms are available on and must be completed on the on-line HAFIS application.

- Account No. 4800, DHCD Directed Cost has been eliminated as a result of GAAP. Department approved exemptions will now be included in the appropriate account line. For example, exemptions for Single Audit Costs will be included in Account No. 4171, Audit Costs. (Appendix B to 050-1, Operating Subsidy Calculation ANUEL Worksheet will adjust the LHA subsidy for exemptions formerly included as DHCD Directed Costs)

- In accordance with GAAP accounting, inventory purchases (Replacement of Equipment and Betterments & Additions) are now distinguished between capitalized and non-capitalized items. Any inventory purchase greater than $1,000 is required by DHCD to be capitalized. LHAs may adopt a capitalization policy which capitalizes inventory purchases at a lesser amount than the $1,000 requirement (i.e. $500), however, no capitalization policy can have an amount higher than $1,000. (Please reference DHCD' s Accounting Manual for State-Aided Programs, Section 15, D for further detail.)

- The Department will allow a bottom-line exemption in the amount of $1,000 per housing authority to allow LHAs to compensate fee accountants for the retooling and set up costs associated with the GAAP Accounting conversion of the authority books, financial reports and budget tools. As the effort involved will vary greatly from authority to authority based on many factors (including the number of programs, size of the programs in terms of employees and financial operations), additional fees may be negotiated between the housing authority and the fee accountant on a case-by-case basis as needed. Any additional fees agreed upon between the authority and their fee accountant (beyond the $1,000 exemption provided by DHCD) must be absorbed within their approved ANUEL.

- Bottom line annual non-utility expense level will be level funded in FY05.

- Line item, Administrative Salaries (Account #4110), will be level funded.

    - LHAs with a rating of **Acceptable Performance** will have flexibility to propose salary changes for all administrative staff, provided that the total increase in overall salaries which may be charged to state programs does not exceed 0% of last year's approved #4110 account provided the authority maintains the same unit prorations among its programs. Changes in staffing patterns need prior DHCD approval.

    - The Executive Director's salary increase is capped at 0%. Exceptions may occur in accordance with the provisions of DHCD's Public Housing Notice 2002-5, New Executive Director Salary and Qualification's Schedule, effective July 1, 2002.

    - The authority is not prohibited from giving pay increases, it is merely restricted in what it may charge these state accounts. LHAs are reminded that as programs, unit counts or unit composition change, the allowable state share of salaries also changes. If new state-aided units are added to the LHA stock, then the state share increases; if, however, the new units are federal units, then the state percentage and share is reduced. If an LHA loses federal or state units, the percentage and the allowable state share of salaries must be re-determined.

  - LHAs with a rating of **Unacceptable Performance** cannot receive salary increases for any administrative staff.

  - LHAs with the classification of "No Rating" may be approved for individual salary increases on a case-by-case basis provided total administrative salaries do not exceed last year's approved amount.

- Maintenance Labor (Account #4410), excluding seasonal help and over-time, will be level funded (0%), or in cases where the rates published by DLWD are greater than last year's approved salary rate, the higher amount will apply.

- Given the fiscal crisis of the Commonwealth, DHCD has been forced to maintain a level funding for Total Non-Utility Costs at local housing authorities (LHAs) during FY03, FY04, and FY05. While the authorities have received 0% bottom-line increases, their costs for many line items (insurance, benefits, rubbish removal, etc.) have increased significantly. These 0% bottom-line caps, combined with costs increasing beyond the control of the authorities, have had a dramatic impact upon LHA operating reserve balances. Recognizing this, DHCD will approve in certain cases operating budgets that have fallen below the recommended 40% of full operating reserves. It is DHCD's anticipation that as the economy improves, LHAs will then be able to replenish their operating reserves to a satisfactory level. (Please note that the term *maximum reserve* has been replaced by the term *full reserve*.)

- Housing authorities are always encouraged to continue to think of new ways to operate more cost-effectively. One way that has been very successful is for the LHA to contract with another Authority to administer the LHA for the existing board. Under this approach, each LHA board continues in its legal form retaining local accountability and authority for its LHA. Instead of hiring a full or part-time executive director, one LHA contracts with another LHA to perform the broad range of necessary day-to-day management services on its behalf with no reduction in non-utility expenditures. This arrangement provides administrative and financial benefits to both LHAs. It provides for sharing of knowledge, expertise, staff and equipment resources and expands growth and career opportunities for staff at all levels. Due to cost savings, each authority has the ability to build operating reserves, perform necessary work for which funds may otherwise not be available, or institute ancillary services that otherwise cannot be afforded. The length of time of such arrangements can vary depending on the local circumstances and the needs of a particular authority.

- Authorities must absorb all costs associated with early retirement within their approved ANUEL. The LHA needs to understand that early retirement typically results in increased operating expenses due to increased pension costs, if not in the current fiscal year, then in subsequent fiscal years. DHCD will not make additional operating funds available to pay increased costs that may result from LHA implementation of an early retirement program. Before the LHA determines to authorize the early retirement for its Authority it should do a full analysis of the costs involved for both the current and subsequent fiscal years.

- This fiscal year, DHCD is continuing to allow LHAs to pay $1,000 in cash to employees as an incentive for authority employees to be insured through a spouse's insurance plan rather than use the authority's insurance, provided that the net result yields an overall savings to the LHA. The LHA must offer this to all employees; those employees who have already opted to be insured through a spouse's plan, and those that opt to do this now. The authority will maintain the same Total Non-Utility Spending Level and may reallocate the savings to another line item. This allows LHAs to examine their operating budget and determine where these funds should be budgeted to best serve the LHA. In the case where an LHA decides to provide additional compensation to its employees, such compensation shall be limited to a one-time year end bonus in an amount not to exceed 1% of the employee's annual salary or additional employee benefits. A bonus can only be granted if the LHA has completed a written performance evaluation of <u>all</u> employees. Since this bonus is calculated annually it may not be available in upcoming years. As with Retained Revenue exemptions, the use of this budget capacity must return to the insurance line item if the savings source no longer exists. The authority must certify on an annual basis that all eligible employees are insured. The employee is required to pay back a prorated amount of the cash incentive if the need should arise for the employee to return to the authority's insurance plan within the same fiscal year.

- DHCD continues to encourage creative shared energy savings proposals from LHAs this year. (See Sec. IV, Special Energy Incentives.) This is a resource to local housing authorities which continues to be underutilized. With the recent wave of discussions concerning energy shortages and rate increases, the need for conservation has never been greater.

- DHCD will be instituting a web based reporting system for LHA submission of its energy consumption reports. Reports will be submitted monthly.

- Collection Loss, Account Line 4570, represents the estimated expense to cover unexpected losses for tenant rents. Under GAAP, LHA's can not use the direct write-off method but shall adopt the allowance method for uncollectible rents.

  LHAs will be required to report additional information on rent collections in their operating statements. All LHAs will be required to report on the billable rents for the fiscal year ended (rent roll); the amount that is past due; the number of tenant accounts represented in that past due amount; and of those, what portion of the dollar amount past due and what number of tenant accounts are under a repayment agreement, actively being pursued by the LHA in court, or less than 30 days late.

- Deficit LHAs that discover and pursue cases where a tenant has not reported income will be allowed to retain 2/3 of the funds recovered with no reduction in subsidy provided the case has been pursued and there is a written repayment agreement for both tenants in possession and tenants that have vacated. (See page 18)

- Deficit LHAs that have entered into Department approved leases for rooftop antennas can use the cost savings upon approval from the Department. The LHA must submit for Department review and approval a plan for the expenditure of this additional income. Upon approval of the Plan, the revenue received as a result of the contract will not be included in the amount of revenue received by the LHA when the Department calculates the LHAs subsidy need.

- LHAs will continue to be required to submit expense breakdown by program. An LHA not in compliance may be restricted in future increases in its salary and accounting line items.

- LHAs are required to maintain separate reserve balances for each of their 689 properties. Regardless of whether an LHA has the same vendor providing services for a number of the LHA' s ch. 689 properties, reserve amounts must be recorded and maintained separately for each property. Reserve balances and expenses for each ch. 689 property must be attributable to the subject property and shown as such.

- As is currently the case, the automatic rent increase for ch. 689 programs under the auspices of the Department of Mental Retardation remain suspended. However, cost based rent increases that are needed for any ch. 689 program/property can still be achieved through annual negotiation with vendor, and subsequent contract addendum. All program rents still need to be at or above the minimum PUM level of $181.00 per unit.

- The submission dates of certain LHA budgets have been delayed as follows: LHAs having a July 1 - June 30 fiscal year need to submit operating budgets no later than January 7, 2005 and LHAs having an October 1 - September 30 fiscal year need to submit operating budgets no later than February 1, 2005 and LHAs having a January 1 - December 31 fiscal year need to submit operating budgets no later than February 1, 2005, and LHAs with an April 1 - March 31, 2006 fiscal year end need to submit operating budgets no later than March 1, 2005.

II HOUSING AUTHORITY BUDGETS: AN OVERVIEW

Every year, each local housing authority is responsible for preparing an operating budget for its programs for submission to state and federal funding agencies (DHCD and HUD), and for reviewing its approved capital budgets. These budgets are financial plans that describe how the LHAs are to be financed during the coming year. The budget is the basic document through which housing authorities' plan for their use of public funds are conveyed to the state and federal agencies, to their residents, to the public, and most importantly to the authorities themselves.

A housing authority budget will be of real value, however, only if: (a) it is carefully and openly prepared with the full understanding of the authority's board and of its tenants; (b) it is fairly reviewed by the funding agencies, so that each authority is measured against the same guidelines; and (c) the authority lives within its approved budget.

While DHCD will monitor housing authority spending for budget overruns and compliance with regulations, the basic responsibility for formulating and living within the budget rests with the authority itself. To assist the authority, the fee accountant, or where the authority does not contract with a fee accountant the authority staff accountant, will provide to the executive director quarterly operating statements which will include budget-to-actual reports for all state programs including a variance report which identifies unanticipated variances of 10% or greater. The executive director will provide the report and a written explanation of variances to each of the board members quarterly.

DHCD understands that a budget is only a plan, a blueprint of how an authority intends to allocate its resources and as such is subject to change. This is why DHCD allows certain flexibility. While LHAs non-utility budgets will be monitored to insure proper expenditure, only four lines will be held to budgeted amounts: the two salary lines, administrative and maintenance; travel; and bottom line non-utility. LHAs within budget on these four lines and in compliance with DHCD rules and guidelines will not need to get approval or submit revisions to move funds between other lines. Retained revenue LHAs that are budgeting above the allowed expense level for non-utilities need to take special care that projected revenue sources are met.

We continue to urge all LHAs to take a "hard look" at utility costs. DHCD strongly recommends that all authorities, especially those that have not conducted a comprehensive review of their energy consumption systems in the past three years, perform such an audit this year. A reduction in energy costs will benefit everyone; retained revenue LHAs, of course, will retain 100% of any saving. DHCD is willing to share any energy savings at deficit authorities with these LHAs so that their work results in a "win win" situation. (See page 37 for additional information.)

The following sections answer some of the basic questions about the budget itself, and the budget submission process.

A. <u>What does a housing authority budget represent?</u>

As stated above, a housing authority's budget is <u>the</u> document through which its financial resources are managed. The budget establishes the <u>maximum amount</u> which will be spent on any particular line item, on any particular program, and within a particular period of time, usually one year. The Commonwealth's obligation to this budget will be limited to the allowable non-utility expense level set for the budget plus utilities, minus income. When DHCD approves an authority's budget, it is understood that the established budget limits will accurately represent how the authority will conduct its business and manage its resources.

In light of the emphasis placed on <u>local</u> responsibility in the budget process, salary, travel and bottom line non-utility budget overruns will be treated very seriously. Housing authorities will be strictly held accountable to operate within the approved budgets, and their fiscal performance will be studied carefully as part of DHCD's management rating process.

LHAs may budget expenditures up to their projected income level or the non-utility allowable expense level plus utilities whichever is higher. The authority must understand, however, that its reimbursement of subsidy from the Commonwealth will be based on the allowable expense level, not the non-utility expense level shown in the budget. LHAs should make sure that they do not over estimate income and/or under estimate utility costs in such a way that the proposed budget becomes unattainable and the financial position of the LHA is placed in jeopardy.

The approved expense level for the LHA will always be the allowable non-utility expense level plus actual utilities. Any amount approved in excess of the approved expense level is the sole responsibility of the authority. DHCD's approval is merely of the authority's plan of expenditure of excess income generated from tenant rents and other income. Such a budgeting tool will allow a retained revenue LHA to budget additional housing services in the budget process, while not penalizing subsidy LHAs. This option is available only to those authorities which have achieved retained revenue status.

With regard to utility expenditures, DHCD recognizes the fact that energy costs are difficult to budget; given uncertainties regarding energy costs and the severity of the winter heating season. Furthermore, many LHAs have experienced and will continue to experience utility cost increases relating to dramatic growth in water and sewer rates. Accordingly, within its available funding, DHCD will cover actual utility costs incurred. However, DHCD does not view utility costs as a completely uncontrollable expense. Clearly, costs can and must be controlled through reasonable reduction of consumption. In order to encourage such cost control, DHCD will share savings realized through conservation and energy improvements with authorities (see page 30). **LHAs showing initiative in controlling utility usage/consumption will be rewarded.**

B. How is an authority's performance rated?

Each authority will receive a management rating based on compliance with DHCD regulations, the strength of its management systems, and its overall performance during the past year. In addition, each authority with a rating of "unacceptable performance" will have an annual on-site review conducted by its housing management specialist and/or other Division staff from DHCD. It is important to note that management ratings may be downgraded as a result of actual operating practices observed during any on-site review during the course of the year or when actions of an LHA warrant a down graded rating.

While discussions to modify the current DHCD review format are ongoing, the BOAST Review (Budget, Occupancy, Administration, Standards of Health and Safety, and Tenant Services) will continue where warranted and special scope reviews will be undertaken by DHCD to review LHA management operations. The BOAST provides DHCD with the ability to assess the proficiency of authority operations, systems and conformance with statutory and regulatory requirements. The standards outlined within each component provide LHAs with the levels of performance that will enable them to achieve satisfactory ratings.

A rating generated by such reviews does not take the place of the LHA's management rating as defined below. Rather, it is an integral part of the overall management rating. DHCD requires reports on vacancy, rent collection, inspections, and tenant selection as well as a certification of regulatory compliance. The management rating takes into consideration the overall performance of the authority including the promotion and/or improvement of housing programs within the local community while any other rating is limited in its scope.

There are two possible management ratings: "Acceptable Performance" and "Unacceptable Performance". The following is a brief description of each rating:

1) **Acceptable Performance**: This rating indicates consistent and solid regulatory compliance, sound administrative, maintenance, rental assistance, production, and fiscal management practices, as well as continued success in promoting and/or improving housing programs within the local community.

   LHAs with an Acceptable Performance rating have a wide spectrum of autonomous responsibility. Day-to-day management decisions will clearly rest at the local level. In addition, these authorities are permitted to use budgeted " cost savings" for pre-approved non-utility expenditures. The following guidelines apply:

   Bottom Line Spending Cap: LHAs will have a broad latitude in allocating available resources in their overall budget submissions, subject to a few restrictions.

   Transfer Authority: LHAs have the ability to use available funds from non-utility line-items without first requesting and receiving DHCD approval for such a transfer.

2) **Unacceptable Performance**: This rating signifies serious and substantial management, fiscal, production, or program management problems, or problems which have remained uncorrected over a period of time and demonstrate fundamental management weaknesses. Authorities with this rating will have no budget flexibility and will not be eligible for incentive programs. The LHA must establish a corrective work plan with a timetable to accomplish the tasks listed therein. DHCD will closely monitor the LHA's progress and may take more drastic action if the LHA maintains this rating. LHAs with this performance rating cannot receive salary increases until the management rating changes.

If serious deficiencies are found in a local housing authority's operations and the authority is showing a significant good faith effort to correct these deficiencies, the Bureau of Housing Management may assign a "No Rating" to that authority. The "No Rating" notification will include a timetable for corrective action and time for a follow-up review. This rating is usually reserved for LHAs with poor past performance who are under new leadership.

Authorities previously rated with an **Acceptable Performance** will retain that rating dependent on continued conformance with DHCD regulations, sound fiscal performance, and observed management operations and production practices.

Those housing authorities which previously received a rating of **Unacceptable Performance**, will retain that rating. These authorities will have to meet the threshold standards of regulatory compliance and of management systems to achieve a rating of Acceptable Performance. The threshold standards are as follows:

(1) Compliance: Each housing authority must certify that it has adopted and is operating in compliance with all DHCD regulations, guidelines, and policies.

(2) Audits: Each housing authority must certify that it has no significant budgetary, financial management, or operating deficiencies noted in its most recent audit (including audits conducted by the State Auditor or others in conformance with the federal Single Audit Act) which have gone uncorrected or which have not been successfully refuted.

(3) Workout Plan: Each housing authority with a rating of **Unacceptable Performance** has followed the DHCD approved plan for corrective action.

C. Can management ratings be appealed?

Yes. An authority may appeal its management rating if it feels the rating does not fairly reflect the accomplishments of the last year. Housing authorities will be evaluated based on periodic reports, site visits, and specific information on file at DHCD, such as year-end operating statements, vacancy reports, and recommendations from DHCD Offices/Bureaus. Appeals should be directed to:

Director, Bureau of Housing Management
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114

All requests must be made in writing and must state the specific area(s) of concern. All requests must be accompanied by appropriate back-up material in support of the request for reconsideration.

D. In preparing its budget, how much flexibility will an authority be given?

An authority will be given significant latitude in formulating its budgets. Three specific restrictions will apply to all authorities as follows:

(1) increases in administrative salaries will be restricted (see I., page12);
(2) increases in maintenance salaries will be restricted (see J., page 12); and
(3) bottom line cap with exceptions to some retained revenue housing authorities will apply.

In addition, it should be noted that all LHAs will continue to face certain obligations as provided in the General Laws and DHCD regulations. For example, housing authorities cannot eliminate support for the local tenant organization (line-item 4230.) These provisions are spelled out in greater detail in Section III.

E. Budget Consolidation

Budget consolidation applies only to your state conventional programs (200, 667 and 705). All federal, rental assistance and most 689 programs, as well as those in development, must remain separate. The 689 budgets for expense approval and reporting will be consolidated on a program basis with only the project reserves and tenants accounts receivables remaining separate on your backup sheet. Budgets for the 689 program can only be consolidated when the program is operated by the same vendor. **The 689 budget must reflect the number of units provided for in the applicable CFA, not the number of residents.** If you are unsure of that number, please contact your housing management specialist.

With the exception of those authorities which manage federal Section 8 New Construction/Substantial Rehabilitation projects for the Commonwealth, the only program designations that should be used are 400, 689 and state rental assistance. If a new development is added to the LHAs portfolio, you must contact your housing management specialist to arrange for a designated budget to be set-up on-line during the initial operating period (IOP).

Year End Statements by Program

Cost breakdown by program will need to be filed at year end. LHAs should review their ability to distribute as many charges to the program which actually incurred the expense to the greatest extent possible. Although these expense reports are not due to DHCD until the LHA's year end, authorities will need to continue the delegation of expenses, by program from the beginning of the fiscal year, to ensure the required information is available for year end reporting. While expenses may be reported by program (c.667, c.705 & c.200) income must be reported by development. Individual development reports will need to be prepared on rental income.

689 program statements must clearly show reserve balances for each 689 property. Reserve amounts for the 689 program cannot be consolidated regardless of the vendor.

F. How do spending caps apply to those 667, 689, 705, and 200 developments funded under the Section 8 New Construction and Substantial Rehab Programs?

For Section 8 New Construction/Substantial Rehab developments, any budget changes are tied to and limited by the HUD allowable contract rents for the authority's fiscal year, to the extent that they can be justified by actual changes in operating costs and actual rents in comparable units in the local market. Increasing the rate of accrual into the capital reserve is an allowable increase in operating costs insofar as it is consistent with HUD guidelines. Prior to an authority's budgeting or requisitioning an increased contract rent, the authority must, ninety days prior to the HAP anniversary date, request approval of such increase in writing to DHCD. DHCD will approve or deny that request and, if approved, DHCD will provide appropriate increase factors. If the request is denied, HAP requisitions will be processed at current approved rent levels only.

Please be reminded that prior written approval from the Bureau of Housing Management is required for all expenditures from the capital reserve. Authorities with such reserve accounts are responsible for obtaining bank account signature cards and placing the name of the Director of Housing Management as a signatory on the account.

G. How is the 689 program affected?

The 689 program expense level is limited by the contribution available under the contract between the housing authority and the sponsor. Authorities are allowed -- but not required -- to make 689 related program payments in lieu of taxes (PILOT) to their communities. PILOT payments should be computed using the same formula as used for the 705 program. DHCD expects that PILOT payments as well as all operating costs can be accommodated within current operating receipts from the sponsor. **To this end, we expect *minimum* monthly rents for this program of $181 per CFA unit regardless of any reconfiguration of the property by DMH or DMR.** In formulating budgets for the 689 program, attention must be paid to ensure that adequate maintenance services are assigned to each program development. Housing authorities are expected to prorate costs such as administrative salaries and related benefits, and other administrative costs in direct proportion to the percentage of an authority's portfolio that the leased units comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to the 689/167 program. Automatic rent increases for 689 programs under the auspices of DMR remain suspended. If you have questions on prorations, call your housing management specialist for clarifications before you submit your budget. For a more complete discussion of budgeting for the 689 program, LHAs should refer to the 689 Management Handbook. Those developments which are seeing a change in configuration as a result of DMH and DMR policy changes should negotiate rents that are sufficient to cover all costs, this may result in higher per unit monthly rents as they still need to pay rent based on the number of units as listed in the CFA.

H. How are Rental Assistance budgets established?

The MRVP administrative fee, $25 per unit per month, will remain the same. A freeze on the leasing of turnover units continues during the upcoming fiscal year. This means LHAs will need to closely monitor any loss of units in the program and adjust expenses accordingly. The LHA will need to project a number of unit months multiplied by the $25 fee to give it a projected administrative income for the upcoming year. AHVP income and expenses should be included in the authority's MRVP budget.

Housing authorities are expected to prorate costs such as administrative salaries and related benefits, and other administrative costs in direct proportion to the percentage of an authority's portfolio that the leased units comprise. Other costs such as travel, insurance, and accounting services should be charged on the basis of actual cost to MRVP. If you have questions on prorations, call your housing management specialist for clarifications before you submit your budget.

Any expenditure from MRVP reserve funds, whether for routine or non-routine costs, need prior written approval from DHCD. **DHCD will not approve any budget submission or expenditure which will place the operating reserve for the MRVP program in a negative status.**

Please remember: MRVP is a state program and as such is subject to all limitations on salaries and other restrictions as outlined in these Budget Guidelines.

I. <u>How will increases in administrative salaries be limited?</u>

Authorities with a rating of **Acceptable Performance** have flexibility to propose reasonable pay increases for all administrative staff except the Executive Director, provided that: the total increase in overall salaries which may be charged to state programs does not exceed 0% of last year's approved #4110 account provided the authority maintains the same unit prorations among its programs; and the authority can support the cost within the current non-utility expense level. The Executive Director's salary increase is capped at 0%. Exceptions to this rule may occur in accordance with the provisions of DHCD's Public Housing Notice 2002-5, New Executive Director Salary and Qualification's Schedule, effective July 1,2002. Changes in staffing patterns need prior DHCD approval. LHAs with a rating of **Unacceptable Performance** cannot receive salary increases for any administrative staff nor increases to account #4110. LHAs with the classification of "No Rating" may be approved for increases on a case-by-case basis. The authority is not prohibited from giving pay increases, it is merely restricted in what it may charge these state accounts.

J. <u>How will increases in maintenance salaries be limited?</u>

Maintenance Labor excluding seasonal help and over-time, will be allowed a 0% growth over last year's approved budget provided the Authority is rated **Acceptable Performance**. In cases where the rates published by the Department of Labor and Workforce Development (DLWD) are greater than 0% the higher amount will apply. LHAs rated **Unacceptable Performance** will be held to the published DLWD rates, or the last approved salary rate whichever is higher.

LHAs with union contracts are reminded that DHCD is not a party to those contracts. It is an agreement between the authority and its union. DHCD merely is stating the Commonwealth's maximum contribution to any such agreement. LHA decisions on federal or private funds concerning programs not under DHCD control are authority, not DHCD, decisions.

Please note that longevity payments cannot be charged to state programs.

K. <u>Security-related Expenses</u>

An LHA can expend state operating funds, within its existing bottom line, on security provided that it justifies, in writing, to the Bureau of Housing Management that:

a) a compelling need for additional security, measured by such factors as extremely high crime rates, dramatic increases in certain types of crimes, or unique crime problems (e.g., civil rights violations resulting from LHA compliance with Skinner decision);

b) it has executed a "maintenance of effort" agreement with the municipality and police chief; and

c) all persons who will perform LHA security functions, whether or not they will carry firearms, are graduates of a police academy certified by the Massachusetts Criminal Justice Training Council and have passed a standard psychological screening for law enforcement personnel. The security personnel will also need to participate in continuing education/training, and be recertified annually for firearms use, as appropriate.

Once approval has been granted for security expenses, yearly documentation is no longer required unless requested by DHCD.

L. <u>When is the budget due for submission?</u>

The submission dates of certain LHA budgets have been delayed as follows: LHAs having a July 1 – June 30 fiscal year need to submit operating budgets no later than January 7, 2005 and LHAs having an October 1 – September 30 fiscal year need to submit operating budgets no later than February 1, 2005 and LHAs having a January 1 – December 31 fiscal year need to submit operating budgets no later than February 1, 2005, and LHAs with an April 1 – March 31, 2006 fiscal year end need to submit operating budgets no later than March 1, 2005.

Budgets will be reviewed and approved as soon as possible provided that the submission is complete and incorporates all relevant explanatory material. Incomplete submissions will be reverted to an authority for correction or completion. DHCD will make every effort to approve budgets within 30 working days, provided that the original submission is complete and within DHCD guidelines and the necessary budget certification forms are submitted. Budgets requesting special exemption or requiring follow-up documentation may take longer.

M. <u>What does the budget submission include?</u>

An authority must submit an operating budget for each housing program having occupied/leased units. All submissions must be submitted electronically. These budgets must include all required data and all applicable justification. A hard copy of the certification page with original signatures needs to be submitted.

All budgets require Board approval prior to submission, and board members are required to sign the Budget Certification Form. In addition, the " Operating Subsidy Calculation ANUEL" (Appendix B) must be completed. Finally, <u>LHAs must include an explanatory electronic transmittal document (e-mail)</u> with all submissions. These transmittals must highlight all major changes in the budget, as well as any place the proposed budget deviates from these Guidelines. If such a budget is submitted without written justification, DHCD will revert that budget without <u>review</u>.

N. How and when is an approved budget implemented?

An authority's approved operating budget is that budget which has been approved electronically by the DHCD's Bureau of Housing Management. Remember, once an authority receives its approved operating budget from the Bureau, that budget must be presented to the Board of the authority for formal Board acceptance if there have been any modifications.

The effective date for the implementation of the new budget is the first day of the new fiscal year, or the date approved by the Bureau of Housing Management. **Until such time that the LHA has received an approved budget, it is authorized to spend at a level no greater than the prior fiscal year's approved level less any one-time exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD.**

O. Increase to allowable non-utility expense level.

The allowable non-utility expense level will be level funded at the LHA's FY'04 ANUEL.

P. How is an IOP budget established?

When an authority has a new development going into occupancy, it must prepare and submit an operating budget for that development. In addition, the authority must consider the effects of the new development on its existing program budgets in terms of changes in prorated charges (see S., page 17).

Authorities frequently need assistance in formulating IOP (Initial Occupancy Period) budgets and often ask what level of non-utility costs is typical for 667 and 705 developments. In formulating IOP budgets for these programs, we encourage authorities to contact their housing management specialist. He/she can tell authorities what the non-utility budget norm is for the particular size authority and program; this norm usually represents the approval limit for IOP budgets.

In preparing an IOP budget for a 689 or 167 development a housing authority should refer to the 689 Management Handbook and to its lease agreement with the development's sponsoring agency. The lease agreement spells out the financial arrangement between the two parties. LHAs should include adequate amounts in their budgets to:

- cover certain start-up costs for capital equipment which are essential to the operation of the new development;
- build reserves to cover non-routine maintenance and planned capital improvements;
- cover a reasonable portion of the authority's cost for crime, property, and any other insurance coverage related to the operation of the 689/167 development;
- fund a reasonable portion of an authority's administrative costs; and

- support realistic routine maintenance requirements of the development over and above those maintenance services performed by the sponsor.

Authorities should make every effort to ensure that 689/167 budgets and lease agreements contain sufficient funds to provide adequate extraordinary and long-term maintenance of these developments.

Q. How is a budget revised?

Amendments to a budget must be submitted electronically, following the instructions for a revision, to DHCD prior to the end of the eleventh month of the authority's current fiscal year. A hard copy of the certification page with original signatures must also be submitted, by mail. While budget revisions are encouraged as a good management tool, they are not required unless the authority is showing cost overruns in the travel or salary lines, making changes in salaries or to reflect approved increased bottom line spending authority. The Department discourages budget revisions which show changes in other lines which total less than one hundred dollars.

Provisions covering revisions to an approved budget during a fiscal year differ for "acceptable" and "unacceptable" authorities, and are covered in the appropriate paragraphs below.

When an authority brings new units into management during the fiscal year, the authority must submit a budget revision to reflect the additional units and change the amounts in proration to the newly appropriate amounts. Similarly, if an authority reduces the number of units in management, revisions reflecting reduced costs and prorations must be submitted.

Acceptable housing authorities do not need to submit budget revisions to DHCD unless those changes affect salaries, travel or the non-utility spending level of the affected program. Authorities needing DHCD approval for their budget changes must file these revisions with DHCD prior to the end of the eleventh month of their fiscal year. This eleventh month rule will also apply to those LHAs that need not file but wish to do so. Remember submissions other than for salaries, travel and bottom line are optional. All modifications must also conform to the following guidelines:

(1) No transfer may result in a deficit in the line-item account from which the funds were taken.

(2) The transfer must be approved by a formal Board vote. DHCD shall be notified within two weeks of any such Board vote. All transfers must be finalized before the end of eleventh month, and a final budget revision must be submitted to DHCD at that time.

(3) Funds from other non-utility line items may not be applied toward administrative/maintenance salaries without first obtaining written permission from DHCD to increase the expense.

Unacceptable authorities may only transfer funds among line items within categories of expenditures, (i.e. administrative, maintenance, general and reserves) on the budget form and only with prior DHCD approval. The end of the eleventh month is the deadline for budget revisions. (Any change in staff job duties must receive prior DHCD approval from the Bureau of Housing Management. No staff salary increases are allowed until the management rating improves.)

A budget revision must be complete when submitted with appropriate supporting information. When submitting a budget revision, columns 1 and 2 of the budget will automatically reflect the approved budget for the current fiscal year. Columns 3 and 4 should reflect the LHA's requested amounts proposed for the revised budget. Additionally, the appropriate schedule of costs should be revised where applicable.

R. How is the reimbursable deficit calculated?

There is a formula for calculating an authority's reimbursable deficit in the conventional housing programs. Although, with two exceptions, we do not penalize authorities for line-item overruns when calculating the reimbursable deficit, we still regard unauthorized overruns very seriously and require that housing authorities file budget revisions in a timely and responsible fashion (see P., page 14).

The amount that an authority is reimbursed is called the Adjusted Budget Deficit. The deficit will be calculated as follows:

	Budgeted ANUEL + Exemptions
plus	Actual Utility Cost
minus	Revenue (lines 1 + 2 + 3 +5 + 7)
=	Adjusted Budget Deficit

An authority will not be penalized for minor overruns in line items, except when overruns are in salaries or travel which will continue to be unfunded.

Operating Subsidy Calculation ANUEL

Under GAAP Accounting, operating subsidy received by deficit authorities is now included in the revenue section of the budget and operating statement. Therefore, DHCD has replaced the CAP Calculation Worksheet used in previous years with the Operating Subsidy Calculation ANUEL Worksheet (Appendix C).

This new form uses the previous ANUEL calculation and calculates the amount of subsidy earned. This amount is to be budgeted in the revenue section of the Budget Request Form. Although there is no longer an account specifically designated for DHCD Directed Costs and all exemptions are to be budgeted on the most appropriate account line item, please note that exemptions are still broken out as:

- DHCD Approved Operating Costs Exemptions (exemptions which previously would have been budgeted on the most appropriate account line item) (line 4 of the Worksheet)
- DHCD Approved Exemptions Direct Reimbursements (exemptions which previously would have been budgeted as DHCD Directed Costs) (line 8 of the Worksheet).

S. Program Based Reporting

DHCD has taken steps to assist itself in asset management. These steps include an analysis of expenses not by total consolidated program, but by individual program. Since most LHAs have continued to keep records by program, this should have little impact. LHAs are required to submit, at year end, a breakdown of expenses by program with its year end consolidated operating statements. Those that are currently not in compliance must prepare the appropriate year-end statements to avoid sanctions. Rental income will need to be reported by **development**.

III. DETAILED INSTRUCTIONS FOR BUDGET PREPARATION

The following sections explain the budget forms and how they are to be prepared.

Individual Program Budgets vs. Consolidated Budgets

For the conventional housing programs, (200, 667, 705) one budget should be prepared for the consolidated operation and listed in the spaces provided. Budgets are required for all occupied developments even if not yet financially closed into "management." This period of occupancy, prior to the closing from development into management, is called Initial Occupancy Period (IOP). A separate budget must be submitted for these units, then consolidated the following year. Authorities must prepare and electronically submit a budget for any such development thirty (30) days prior to the projected date of lease-up. For Rental Assistance, one budget should be submitted encompassing all program components, including AHVP.

Program/Units

The cover sheet for each program's budget should indicate the total number of units, by bedroom size, currently in each housing program. For example, in the 400-1 budget, the LHA must list each individual development (i.e. 667-1, 40 one bedroom units; 667-2, 30 one bedroom units; 200-1, 10 two bedroom units, 10 three bedroom units, 5 four bedroom units; 705-1, 5 two bedroom units; 705-2, 10 three bedroom units). Units in planning or construction should be included here. MRVP and Section 8 units should list both the number of contract units and the number projected for occupancy as of the first day of the fiscal year. For budgetary purposes, this number of MRVP and Section 8 units will remain constant for the fiscal year. AHVP, although included in the MRVP budget for expense purposes, needs to show separately the number of occupied units.

Calculating Per-Unit-Month (PUM) Costs

A Per-Unit-Month (PUM) cost is calculated to determine the monthly operating cost of a single unit of housing. It serves as a basis for comparing operating costs of local housing authorities. The calculation is now done automatically by the computer when you input your cost totals.

Budget Description (Forms 050 and 070)

The electronic version of the budget has both a PUM and an amount column for the prior year approved budget, rather than just one field. Due to the conversion to GAAP, this year the electronic version of the budget will not contain the previous fiscal year' s approved PUMS and amounts. Also, there is no DHCD modification area on the form. This will be added at the Department if modifications are necessary.

BUDGET LINE ITEM: OPERATING RECEIPTS

The following sections explain how each of the line-items under "Operating Receipts" is to be prepared.

BUDGET LINE ITEM: REVENUE

The following section explains how each of the line-items under "Revenue" are to be prepared.

3110: Shelter Rent

Include in this account total rental receipts anticipated from residents assuming an occupancy rate of not less than 97% for the projected twelve-month period. Should the LHA believe that it will not achieve a 97% annual occupancy rate, the LHA must submit detailed information explaining the reasons for a lower occupancy rate together with information on the LHA's efforts to mitigate the reduced occupancy rate. In addition, your shelter rent projection should be based on the current rent roll plus anticipated increases expected from annual rent redeterminations as well as increases which will be realized as a result of regulatory amendments. Rents for residents of family public housing are calculated at 27, 30 or 32% of household income. Residents of elderly/handicapped housing are calculated at 25% or 30% of household income. Any tenant household that is overhoused and fails to move to an appropriately sized apartment when requested to do so by an LHA and will be charged rent at 150% of what otherwise would be due. In addition, a late fee penalty of $25 will be charged to any tenant household which fails to pay rent within 30 days of its due date.

LHAs will be required to report additional information on rent collections in their operating statements. All LHAs will be required to report on the billable rents for the fiscal year ended (rent roll); the amount that is past due; the number of tenant accounts represented in that past due amount; and of those what portion of the dollar amount past due and what number of tenant accounts are under a repayment agreement, actively being pursued by the LHA in court, or less than 30 days late.

Deficit LHAs that discover, pursue cases, and have entered into a written repayment agreement, with a tenant or a vacated tenant that has not reported income, the LHA will be allowed to retain 2/3' s of the funds received. The total dollar amount recovered shall be included in this line-item, 2/3' s of this total dollar amount will be offset by an exemption.

3115: Shelter Rent - Section 8

This account applies only to those developments receiving support through the federal Section 8 New Construction and/or Substantial Rehab Programs. This account should be credited and Account 1121 should be debited for the Federal Section 8 Subsidy support on, ch. 200, ch. 667, ch. 705 and ch. 689 programs.

3190: Non-Dwelling Rental

This account should be credited with the rent, including charges for utilities and equipment, billed to lessees of non-dwelling facilities and of dwelling units rented for non-dwelling purposes.

Include income from space rented to non-residential agencies. Before an authority enters into an agreement for rental of space for non-dwelling purposes, it must obtain written authorization from the Bureau of Housing Management. Any lease agreement must also be approved by the Bureau of Housing Management. The request should include all pertinent details for the proposed arrangement including evidence of adequate lessee insurance and an executed lease, even if no rent is to be paid. The authority should also include justification that such use of the space does not deprive the authority of needed operating or dwelling space and is in the best interest of both the authority and its residents. In general, rent should cover all operating expenses to the authority including janitorial, maintenance, and utility costs. An authority should not incur costs as a result of space being rented to other agencies including charges to federal programs for use of central office or maintenance space. When the LHA's central administration or maintenance offices are located in a state-aided development, rent should be charged to federal programs on a prorated basis. Rental charges should be shown as income to the specific program providing the facilities.

3400: Administrative Fee- MRVP/AHVP

This account should be credited with Administrative Fees to be received in cash for the MRVP/AHVP Program. Actual cash amounts received will agree with the amounts approved on line 7 of Form 076.

3610: Interest on Investments - Unrestricted

This account should be credited with interest earned on Unrestricted administrative fund investments. See DHCD Accounting Manual, Section 16B, Investment Policy and Cash Management.

A local housing authority should review its investment policy and practices periodically. Interest rates fluctuate and future investments may vary substantially from the past, both as to amount and time. The budget estimate of interest income should be based on a realistic appraisal of these circumstances as indicated by future operating plans, projection of funds available for investment, and a commitment to maximize investment income while safeguarding investment funds.

For IOP budgets, authorities must be careful to assign the appropriate share of investment income to both its management and development books. The proration of investment income should be based on the relationship of unused development funds to available operating reserves.

MRVP/AHVP program interest income should be estimated based on the program's operating reserve. Interest earned on subsidy funds is not income to an authority and will be returned to DHCD through the subsidy requisition process.

DHCD's Accounting Manual for State-Aided Housing Programs includes a sample Investment Policy for LHAs. Housing authorities are encouraged to review Section 16 of the Manual. Please note that the Manual describes a requirement for collateralization of LHA deposits. Insurance may be available to cover LHA deposits. For example, FDIC provisions offer coverage up to $100,000 per investor per institution. LHAs are required to ensure that their depositories, with the exception of the Massachusetts Municipal Depository Trust, fully secure the uninsured balance on deposit with them. LHAs are reminded that under M.G.L. c.121B, they are prohibited from placing any state funds or any other funds entrusted to the state/LHA from the federal government at risk. Therefore, the only acceptable investments are those outlined in the DHCD Accounting Manual, Section 16.

3611: Interest on Investments - Restricted

This account should be credited with interest earned on Restricted administrative fund investments. See DHCD Accounting Manual, Section 16B, Investment Policy and Cash Management.

3690: Other Operating Revenues

This account should be credited with income from the operation of the project which cannot be otherwise classified. Income credits to this account include, but are not limited to, penalties for delinquent payments, rental of equipment, receipts from telephone pay stations, charges for use of community space, charges to other projects or programs for the use of central office management and maintenance space, commissions and profits from vending machines, including washing machines, and rental of space in community or administration buildings for laundry equipment on a contractual or other basis.

Several sources of income include:

(a) Funds from shared commercial ventures such as coin-operated laundry facilities. This is an area that requires close attention from a senior staff member at the LHA. Income from coin-operated machines may not be transferred to local tenant organizations, but rather must be shown in the Other Operating Receipts line item.

In addition, all local housing authorities must enter into a written agreement regarding the upkeep of the machines, the method of income collection, and the percentage split of the income between the vendor and LHA. Agreements may contain multi-year terms, but should not extend beyond five years, and are not valid until approved by the Bureau of Housing Management.

(b) Charges to residents for additional services, materials, and/or repairs of damage caused by neglect or abuse in accordance with the Department's regulations on lease provisions. LHAs may choose, rather than showing these payments as income, to treat them as reimbursements to the accounts from which the charges were originally made. This is allowable provided the following criteria are met: the charges are actually collected, the work has an itemized list of materials used, and any charge for labor can only be for hours outside the normal work day. This means you can charge tenants for maintenance time; but only those hours outside of the normal work day may be reimbursed to the labor line. Reimbursement for normal working hours must be treated as income to the local housing authority.

LHAs that have raised additional income in other ways such as from roof-top antennas and have received Department approval for the expenditure of the additional income will have these monies be exempted from the calculation of subsidy need. This income must be reported in this Line-Item, and will be offset by an exemption for the exact amount of income.

<u>3691: Other Revenue - Retained</u>

This account should be credited with all miscellaneous revenue to be <u>retained</u> by the LHA. These items are not included in the computation of operating subsidy. The most common example for this account are receipts for the rental of roof antennas. Also include in this account any other revenue items that are approved by DHCD that do not enter into the computation of operating subsidy.

<u>3801: Operating Subsidy – DHCD (400-1)</u>

This account was formerly the #7300 account. It represents all operating subsidy received and or earned for the fiscal year. This account should be credited with all operating subsidy forward funding payments received during the fiscal year. At the end of each quarter the operating subsidy earned is calculated on the DHCD Form 051-1

During the first three quarters the advance is debited or credited respectively to Account 2291 for financial statement purposes only. At the end of the fiscal year the underpayment is debited to Account 1125 and credited to Account 3801, and the overpayment is debited to Account 3801 and credited to Account 2118

<u>3802: Operating Subsidy – MRVP/AHVP Landlords</u>

The credit balance in this account represents the anticipated total receipts from DHCD during the fiscal year for housing assistance payments (landlords). At the end of each fiscal year this account will be adjusted to equal the actual subsidy earned. The balance in this account at the end of each fiscal year should be equal to the total housing assistance payment as recorded in account 4715. For the difference between the actual receipts and the amount determined to be earned, account 1125 will be debited for amount due from DHCD and account 2118 will be credited for amount due to DHCD.

<u>3920: Gain/Loss from Sale or Disposition of Property (Capitalized or Non-Capitalized)</u> The debit or credit balance of this account represents the following items;

a) cash proceeds from the sale of property that was either 1) non-capitalized or 2) capitalized and has been fully depreciated.

b) realized gain or loss from the sale or disposition of capitalized properly that has not been fully depreciated

BUDGET LINE-ITEMS: OPERATING EXPENSES

The following sections explain how each of the line-items under "Expenses" are to be prepared.

4110: Administrative Salaries

This account should be charged with the gross salaries of LHA personnel engaged in administrative duties and in the supervision planning, and direction of maintenance activities and operating services during the operations period. It should include the salaries of the Executive Director , Assistant Executive Director, accountants, accounting clerks, clerks, secretaries, switchboard operators, project managers, management aides, purchasing agents, engineers, draftsmen, maintenance superintendents, and all other employees assigned to administrative duties, The Executive Director's salary must be in accordance with DHCD's currently published Salary Schedule for Executive Directors, or an approved budget.

Salaries may be prorated by number of units or number of bedrooms in a development, DHCD reserves the right to modify prorations for the State housing program. In the case of the acquisition/ loss of units, a new salary rate will be established for the Executive Director and the Authority must submit a budget revision reflecting the new unit count The new salary rate will be adjusted in accordance with the current Salary Schedule for Executive Directors, salaries will then be prorated according to the number of units bedrooms in each program

If DHCD's Executive Director Hiring Guidelines and staff hiring procedures are not adhered to, DHCD reserves the right to withhold or withdraw state funding for those positions as provided for in 760 CMR 4.05.

All salaries must be listed on the Schedule of All Positions and Salaries. Authorities no longer need to submit a table of organization. **A complete disclosure of all relationships of staff to any board or other staff member must be part of the budget submission**. The Budget Certification, which must be executed by the Board of Commissioners, provides two statements addressing the existence or non-existence of relationships at LHAs. The board must select the appropriate statement and provide documentation as necessary upon execution of the Budget Certification. The salaries shown must be the total compensation received by the employee for the performance of his/her duties from all sources. Even employees with no proration of any share of their salary charged to state programs must be shown with full salary.

Authorities must indicate under the column headed " Code" on the Schedule of All Positions and Salaries which proration is used and include a description of each code. During the development period, the annual salary as approved by DHCD's Bureau of Housing Development and Construction for the executive director or any other personnel must be listed under "Development" on the schedule.

4120: Compensated Absences

The debit balance in this account represents the actual cost incurred during the fiscal year for vacation, paid holidays, vested sick leave and earned compensatory time. This account includes both the direct compensated absences cost and associated employer payroll expenses (employment taxes, pension cost, etc.).

4130: Legal Expense

This account should be charged with retainers and fees paid to attorneys for legal services relating to the operation of the projects

An authority's expense for legal services is fixed. The terms of an authority's approved contract with its attorney which specifies an amount for either an hourly rate or set fees for legal work of a specific or extraordinary nature should be consistent with DHCD guidelines for legal contracts and must be approved by the Department. If an authority chooses not to enter into a contract for legal services, but rather engage services on an as needed basis, it should contact its housing management specialist. Whenever possible, routine evictions for non-payment of rent should be handled by the LHA's administrative/management staff. Legal charges must be reasonable and not exceed Department guidelines. Please note that funds for legal service contracts may not be expended until said contracts are approved by the Department.

It has also come to our attention that a number of LHAs thought they could not budget for legal expenses if a DHCD Regional Attorney was available in their region. Not only can such an LHA budget for legal expenses, it is important that each LHA maintain adequate funding for legal expenses in its annual operating budget. At a minimum an LHA having 200 or fewer state-aided conventional public housing units should budget $3,500 and an LHA with more than 200 state-aided conventional public housing units, $5,500. Each LHA is required to directly pay for all its costs for mailing of notices or responses as well as costs associated with filing litigation, including court filing fees, and constable service even if the LHA has access to a DHCD Regional Attorney. As the LHA approaches its fiscal year end, any funds budgeted for legal that remain unexpended or uncommitted may be transferred to another line item as allowed under these budget guidelines. If an LHA has not budgeted anything for legal expenses for a number of years and feels that funding the full recommended amount would present a hardship in this fiscal year, they need to submit a plan to their housing management specialist showing how it will build up this line item over time.

This account should not be charged with:

1. Legal fees paid to attorneys in connection with the eviction of tenants or the collection of amounts due from tenants; such fees, if not legally chargeable to tenants, shall be charged to Account 4190.
2. Any part of the salary of an attorney employed in an administrative position, such as an Executive Director, Assistant Executive Director, etc., although such attorney may perform certain legal work incidental to his/her administrative duties ; such salary shall be charged to Account 4110

4140: Compensation to Authority Members

A local authority may compensate its members for performance of their duties and such other services as they may render to the authority in connection with its Chapter 200 development(s). Compensation for any other program is not authorized. Because of this, LHAs must base such compensation only on the actual rent receipts for these developments plus a prorated share of other operating receipts of funds on a per unit basis. The precise amounts that members may be compensated is defined by statute to a maximum of $40 per member per day, and $50 for the chairperson per day. The total of all compensation to all board members is not to exceed two percent (2%) of actual gross income of Chapter 200 developments in any given year, consistent with the approved budget amount. In no case shall the payment of compensation exceed $12,500 annually for the chairperson, or $10,000 for any member other than the chairperson. Please note, the statute requires the member to perform housing authority business in order to receive compensation.

4150: Travel And Related Expense

Travel practices and policies are to be consistent with Department policy. Legitimate travel expenses incurred by board members and staff in the discharge of their duties for any **state-aided program** are reimbursable from this account based upon the following considerations:

> Registration fees for conferences are allowable for a reasonable number of LHA members arid the Executive Director.
>
> Charges for overnight accommodations are allowable if the conference is located at a site at least 40 miles from the community where the LHA is located. If the room being rented by the LHA is being occupied by a husband and wife, one of whom is not associated with the LHA, the allowable reimbursable amount is based upon the single occupancy. The difference between single and double occupancy is borne by the individual LHA member or staff member.

- Private auto mileage incurred in the course of authority business, is reimbursable at the rate of twenty-eight cents ($0.28) per mile. Such rate is generally inclusive of tolls and parking fees. A flat rate, either calculated on a weekly or monthly basis, for the business use of private vehicle is <u>not allowable</u> under any circumstances. Reimbursement for tolls and parking is allowed if the traveler takes these actual costs in lieu of any mileage reimbursement. However, when traveling into Boston for meetings with DHCD reimbursement for parking plus mileage is an allowable expense.

- When employees use an authority owned vehicle for travel, reimbursement for tolls and parking is permissible as long as parking charges are reasonable and cover solely the period of time during which business is conducted. All state funded authority owned vehicles must be permanently marked with the authority name. In addition, such vehicles must be garaged at the authority, not at the employee's home, and must be used <u>only</u> for authority business (not commuting to work, etc.). Exceptions to this rule must have prior <u>written</u> approval from the Director of the Bureau of Housing Management.

- Reimbursement for meals is allowed if the following criteria are met:

  Breakfast: Travel begins no later than 6:45 a.m. -
  $4.00 maximum allowable.

Lunch: Travel must exceed 24 hours -
$7.50 maximum allowable.

Supper: Travel must end at 7:00 p.m. or later -
$12.00 maximum allowable.

Those traveling 24 hours may take advantage of a new, more flexible policy that allows reimbursement of $24.50 a day rather than a meal specific policy.

Limited out-of-state day travel is allowable provided that the LHA can document that such travel directly benefits the LHA's administration of state housing programs. The LHA must receive prior written approval from the Director of the Bureau of Housing Management for any such travel. Allowable travel costs are limited.

In summary, the following items are not allowable as reimbursable from state funds:

- flat rate allowances for cars, trucks, or other vehicles;

- payment for meals in excess of allowable amounts;

- reimbursement for alcoholic beverages; this applies even if the total food bill is less than the maximum allowable;

- reimbursement for car rentals;

- travel outside of Massachusetts without prior written DHCD approval.

All expenses must be vouchered and have the proper documentation attached prior to payment. No expenses are allowable that exceed the approved budgeted amount in Account 4150, Travel and Related Expenses.

Acceptable Performance designated authorities may transfer funds from non-utility line items to the travel account only upon prior approval from DHCD and only to attend housing conferences, which are relevant to state-aided housing programs. Funds may not be transferred if: 1) it appears that essential services may be jeopardized; or 2) an overrun would result in the account from which the funds were transferred. Operating reserves may not be used. A request for transfers must include:

- name and dates of conference;
- number of persons attending;
- amount(s) to be transferred; and
- explanation of source of funds from other accounts.

(Remember, training is shown and broken down on its own as a subdivision of 4190.)

4170: Contractual Accounting Services

The total amount to be allowed for accounting services is established in the published fee schedule, makes a distinction between the first set of books maintained at a LHA and subsequent sets, and there is a different fee associated with each to reflect the concept of marginal cost as opposed to a flat fee. The "first set" is defined as the books for that housing authority budget which contains the largest number of units.

Fees for accounting services and/or audits that are provided routinely are either contracted for on an annual basis or such services are carried out by an authority staff person. Only accounting services performed on a contractual basis (fee accountant) should be included in this item. Full or part-time LHA accounting staff who provide routine accounting services should be included in Account 4110, Administrative Salaries. The major elements measured by the Department in evaluating accounting services are the timeliness with which the required financial reports are filed and their accuracy. An authority should be careful that it is satisfied that its contractual accounting services are fulfilling the Authority's financial obligations since those services reflect on the authority's performance. Authorities should be sure that the fee accountant is providing the required services as outlined in both the Accounting Manual and in Appendix E.

The Department will allow a bottom-line exemption in the amount of $1,000 per housing authority to allow LHAs to compensate fee accountants for the retooling and set up costs associated with the GAAP Accounting conversion of the authority books, financial reports and budget tools. As the effort involved will vary greatly from authority to authority based on many factors (including the number of programs, size of the programs in terms of employees and financial operations), additional fees may be negotiated between the housing authority and the fee accountant on a case-by-case basis as needed. Any additional fees agreed upon between the authority and their fee accountant (beyond the $1,000 exemption provided by DHCD) must be absorbed within their approved ANUEL.

The maximum amount to be allowed for accounting services -- whether automated or manual -- is that amount established by the Department in the published fee schedule. Please keep in mind that this schedule represents a cost ceiling, and is based upon performance of a full range of accounting services on a monthly basis. For those authorities that depend on an outside accountant for a reduced scope of services, or for services less frequent than monthly, the fee per set of books should be negotiated with the accountant and should be less than the published schedule.

All contracts must meet Department requirements, as stipulated in Appendix E, and be approved by DHCD. LHAs without signed contracts are prohibited from making payments from this line. The fee accountant schedule may be found in Appendix E.

4171: Audit Costs

This account includes the State Program's prorated share of audit fees paid to an Independent Public Accountant (IPA). The procurement of an IPA is necessary to satisfy the Federal Government's requirements of Circular A-133 and the single audit requirements. Costs for these services should be shared with all State and Federal programs of LHA. An LHA may request and exemption to its "ANUEL" for the prorated cost of these services. LHAs that do receive Federal Funds will not use this account.

4180: Penalties and Interest

The LHA is expected to manage its cash flow and accounts payable effectively. Any expenses incurred from penalties, fees, and interest paid on delinquent accounts shall be included in this line-item.

4190: Administrative Other

This account is provided for recording the cost of administrative items for which no specific amount is prescribed in this 4100 group of accounts. It includes, but is not limited to, the cost of such items as: reports and accounting forms; stationery and other office supplies; postage; telephone and telegraph services; messenger service; armored car service; rental of office space; advertising for bids; and fiscal agent fees. This account shall also be charged with:

(1) Costs incurred for publications (i.e. preparation, printing and distribution of annual reports and other informational literature relating to low-income programs)

(2) The cost of periodicals, books and other literature deemed useful to the low-income housing programs;

(3) Dues and fees for membership in, and payment of service of, organizations supplying technical or professional information and/or service concerning housing programs,

(4) fees paid to attorneys or collection agents and court costs incurred in connection with the collection of amounts due from tenants which are not chargeable to tenants; and

(5) Incidental express, freight, or other shipping charges not identified with the charges to the same account as the article shipped.

Please note the specific limitations pertaining to the 4190 account:

1) Publications

Publications purchased or subscribed to must be useful to LHA program operations. The estimated cost of preparing LHA publications such as the Annual Report should be realistic and reasonable.

2) Membership Dues and Fees

3) Telephone

A housing authority's expense for telephone service depends in large part on the size of its programs and staff and the complexity of its organization. The LHA should provide the service for one telephone line to each recognized resident organization if requested by the organization. Additional lines should be paid out of the resident organization's annual budget. In large authorities where a city- wide resident organization exists and developments are scattered, additional lines may be supplied

While the authority is no longer required to submit a detailed breakdown of administrative costs in its budget submission such detailed analysis needs to be part of the LHA's own records. Detailed expenses need to be budgeted and maintained for the following:

Membership Dues and Fees: **Agency membership must be limited to professional organizations supplying housing information relevant to state-aided programs**. It must be determined whether or not an "Agency" membership includes individual board members and/or staff. If it does not, the cost of membership for those individuals is borne not by the authority, but by the individual. For example, "Agency" membership in the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials (NAHRO) includes the five board members and the executive director, but an "Agency" membership in National NAHRO includes only the agency and not the individuals which it encompasses.

Cell Phones: The use of cellular phones has increased greatly at LHAs over the past few years. This has happened with few, if any, " ground rules" concerning their use. A few basic rules will now need to be applied to the use of such phones:

(1) Employee access will need to be approved by the board.
(2) Use should be work related only. In instances where there are charges due to personal calls reimbursement must be made by the user to the authority.
(3) An itemized bill will need to be received and signed by the employee using the cell phone.
(4) There should be a statement attached to the bill, where the employee signs and attests to the fact that no personal phone charges have been made by him/her on the phone, and that all personal charges have been reimbursed to the authority.

Rental of Office Space: If state programs rent space in a federal development, include yearly rental charge here. All rental agreements relating to the authority renting office space require prior, written Department approval.

Collection Agency and Court Costs: This includes collection agency fees and court costs associated with action against tenants or former tenants for rent arrearages.

Forms, Stationery, and Office Supplies: This includes consumable supplies as well as service contracts on office machinery. Large authorities should purchase supplies in bulk and should consider A&F's Operational Services Division's Statewide Contracts, Commodities and Services whenever viable.

Other: This includes all administrative costs, including contract computer support not described elsewhere. Internet access should be budgeted here.

Training: This includes all conference fees, staff training, educational rebates and other such costs.

(All accounts above may be charged only for cost directly related to state-aided housing units.)

4230: Tenant Organization

An amount equal to up to $3 per occupied unit per year, or $250 for city or town, whichever is greater, shall be made available to the recognized local tenant organization, pursuant to DHCD's regulation on tenant participation. The LHA may include total funding not to exceed $6 per occupied unit, when the LTO has convinced the LHA of a need for additional funds. Once the tenant organization has submitted a budget and has otherwise complied with the regulation, it may request these funds either: (a) as a direct payment on a scheduled basis, based on its approved budget, provided that the tenant organization agrees to keep detailed financial records of all expenditures; or (b) on the basis of specific vouchers submitted by that organization to the authority.

These funds shall only be provided to the tenant organization for purposes which enable it to carry out its primary function. Namely: Effective participation in the administration and management of the housing authority. Examples of allowable expenses include: office equipment; special stationery; telephone costs beyond basic service; attendance at relevant conferences; payment of dues to state tenant organizations. Ineligible expenses would include: Any item or activity prohibited by law; political or religious contributions; recreational or social events; or payments to benefit individual tenants or household members.

In addition, pursuant to Tenant Participation Regulations, each housing authority should make available to each duly recognized tenant organization upon request: reasonable space for an office; a reasonable supply of office furniture and consumable office supplies; the installation and basic service costs for a private telephone line (the tenant organization must pay for its own long-distance calls); and the use of available common rooms for tenant organization meetings.

Authorities which operate computer learning centers, which are funded in the state, consolidated budget or which have funding flow through the budget should budget the cost of the centers on this line.

4310: Water

This account should be charged with the cost of water and sewer charges purchased for all purposes.

4320: Electricity

This account should be charged with the cost of electricity purchased for all purposes.

4330: Gas

This account should be charged with the cost of gas (natural, artificial, or liquefied) purchased for all purposes.

4340: Fuel

This account should be charged with the cost of coal, fuel oil, steam purchased, and any other fuels (except electricity and gas) used in connection with Local Housing Authority operation of plants for the heating of space or water supplied to tenants as a part of rent.

4360: Energy Conservation

This account is to be charged with costs incurred for energy conservation measures. Authorities are encouraged to identify conservation measures with a short-term payback period, approximately one year or less, and to budget funds in Account 4360 of the utility section of the budget to implement those measures. Conservation measures such as these should be undertaken at the beginning of an LHA's fiscal year. If they are, funds expended on such measures will be fully paid for through fuel/water savings in other utility line items.

4390: Other Utilities

This account should be charged with the cost of utilities for which other accounts are not specifically provided.

The cost of utility services is also a substantial element of operating expense. Good budgetary planning requires a thorough study of operating policies and practices that control the supply, use, and costs of utility services. A thorough investigation of average consumption levels, current rates as established by the utility vendors, and anticipated rate changes should be made.

Conservation methods implemented by the authority should be stated fully and comparisons made between energy levels prior to modernization and those after modernization has taken place. Other methods should be stated as well, with an analysis of projected savings.

Budgeted amounts for utility expenses should be related to actual costs experienced by the authority as opposed to a previous budget amount. In addition, with continued emphasis on conservation, authorities should build consumption savings into budget estimates.

Funds expended on such measures will be fully paid for through fuel/water savings in other utility line items. DHCD staff is available to your authority to help identify such conservation measure (see page 37).

Please remember: LHAs may include septic system pumping in the utility section of the budget rather than in the maintenance contract cost section.

4410: Maintenance Labor

This account should be charged with the gross salaries and wages, or applicable portions thereof, LHA personnel engaged in the routine maintenance of the project.

Include all labor charges, including working maintenance supervisor, directly attributable to maintenance activities, such as repairs and maintenance of structure and grounds. The state prorated share of salaries should be equal to the dollar value of all approved position(s) or parts of position(s) approved for funding in the various state programs at the minimum rate set by the DLWD. The maintenance labor line (not including seasonal help and over-time) will be allowed a 0% increase over last year's approved budget. In cases where DLWD growth is greater than 0% the higher amount will apply. DHCD does not set the rates to be paid to individual maintenance staff, rather it approves a maximum, dollar value, excluding overtime which may be charged to a particular state program.

4420: Materials & Supplies

This account should be charged with the cost of materials, supplies, and expendable equipment used in connection with the routine maintenance of the project. This includes the operation and maintenance of automotive and other movable equipment (such as gasoline, oil, grease, batteries, tires and tubes, etc.).

This account should also be charged with the cost of materials, supplies, and expendable equipment used in connection with operating services. This includes such items as janitorial services, elevator services, extermination of rodents and household pests, and rubbish and garbage collection.

The cost of materials, supplies, and expendable equipment furnished by a contractor (firm or individual) in connection with the performance of routine maintenance or operating services should not be charged to this account, but to Account 4430.

4430: Contract Costs

This account should be charged with contract costs (Le. the cost of services for labor, materials, and supplies furnished by a firm or by persons other than Local Authority employees) incurred in connection with the routine maintenance of the project, including the maintenance of automotive and other movable equipment (such as washing, greasing, polishing, and repair services). This account should also be charged with contract costs incurred in connection with such operating services as janitorial services, elevator service, extermination of rodents and household pests, and rubbish and garbage collection

Include on this line the projected cost for all maintenance work not performed by housing authority maintenance staff. This includes contracts for snow removal, refuse collection, extermination, oil burner maintenance, etc. Also included are payments to outside tradesmen who may be called for minor electrical or plumbing repairs outside the scope of the skills of authority staff.

Remember that all purchases of materials and supplies as well as contracts must comply with the procurement policy as established by the Inspector General (M.G.L. c. 30B). Contracts bid in accordance with applicable state statute and for which the Authority has adequate funding no longer require advanced Department review and approval. Contracts which become construction contracts when they reach $25,000 such as those for elevator and fire alarm and all other construction contracts need additional Department oversight and review must continue to be submitted.

4510: Insurance

Includes the total amount of premiums charged for the period for all forms of insurance. Fire and extended coverage, crime, and general liability are handled by DHCD on a state-wide basis. All other necessary insurance policies include: Workers' Compensation, boiler, vehicle liability and owner, etc. Authorities should review insurance policies annually to take advantage of fluctuating rates. Authorities are still required to show a more detailed breakdown of these costs on the schedule of insurance.

4520: Payments in Lieu of Taxes

This account should be charged and Account 2137 credited with all payments in lieu of taxes accruing to a municipality or other local taxing body. See Section 15G DHCD Accounting Manual for State-Aided Programs.

Payments in Lieu of Taxes (PILOT) should be determined and charged separately for each program as follows:

Chapter 667	- None
Chapter MRVP	- None
Chapter 200	- Maximum $3.00 PUM
Chapter 705	- Not to exceed the amount of 1/2 Full Value Tax Rate + $100 times the number of bedrooms.
Chapter 689/167	- Same formula as Chapter 705.

The housing authority should determine that all public services provided for in the cooperation agreement with the municipality are being received at no additional expense. If there are any such authority expenditures, the PILOT should be reduced to reflect these payments.

The above PILOT payments are the maximum allowed. No authority may pay any amount greater than those shown above. LHAs who have cooperation agreements with cities/towns that allow them to pay less or retain PILOT payments to cover other agreed to expenses may do so.

4540: Employee Benefits

This account should be charged with Local Authority contributions to employee benefit plans such as pension, retirement, and health and welfare plans. It should also be charged with administrative expenses paid to the State or other public agency in connection with a retirement plan, if such payment is required by State Law, and with Trustee's fees paid in connection with a private retirement plan, if such payment is required under the retirement plan contract Workers' Compensation Insurance is not charged to this account, but to Account 1211

For the conventional housing and rental assistance budgets, this section includes payments made to employee pension and retirement funds by the authority as a supplement to contributions by its employees. Deductions from employees' salaries for pension or retirement funds shall not be included in this account, but shall be considered as a part of gross salaries. Housing authority employees are eligible for inclusion in either the state **or local benefit plans. Please note that retirement costs cannot be charged to the Modernization, Development, 884, or Housing Innovation Fund programs.**

Employee benefits are based upon a given percentage of the total payroll; therefore, the total amount approved in this account will be based on the approved budgeted salaries representing the state's fair share.

Authorities offering health insurance are restricted by law to the State Group Insurance Plan and the percentage outlined within it. Dental and vision plans may be offered. Any such plan adopted must be approved by the Department. Please show detailed information on the schedule of insurance. A number of authorities have added this benefit in recent years. Plans offered should be similar to those offered to state employees.

An incentive of $1,000 in cash to employees who choose to be insured through a spouse' s insurance plan rather than use the LHA' s insurance has been added, provided that the net result yields an overall savings to the LHA. If the LHA offers this incentive it must be provided to employees that have already opted to be insured through a spouse' s plan and to those that opt to do it now. The incentive payment would continue to be recorded in this line-item, however, the savings from this action may be reallocated to another line-item. The LHA must certify on an annual basis that all eligible employees are insured. The employee is required to pay back a prorated amount of the cash incentive if the need should arise for the employee to return to the authority' s insurance plan within the same fiscal year. The LHA must maintain the same Total Non-Utility Spending Level. (In the case where an LHA decides to provide additional compensation to its employees, such compensation shall be limited to a one-time year end bonus in an amount not to exceed 1% of the employee' s annual salary or additional employee benefits. A bonus can only be granted if the LHA has completed a written performance evaluation of <u>all</u> employees. <u>The bonus must be recorded in line item 4110 or 4410</u>. Since this bonus is calculated annually it may not be available in upcoming years. As with Retained Revenue exemptions, the use of this budget capacity must return to the insurance line item if the savings source no longer exists.)

<u>4570: Collection Loss</u>

The balance in this account represents the estimated expense to cover unexpected losses for tenant rents. Under GAAP, LHA's should not use the direct write-off method but shall adopt the allowance method for uncollectible rents. Once the allowance method is adopted, all collection losses approved to be written-off by the Board and according to DHCD policy shall be charged against account 1123 (allowance for doubtful accounts – tenant rents). Additionally, any subsequent collection of an amount that has been written-off shall be credited to account 1123. The balance in this account is normally the difference between the general ledger balance of account 1123 just prior to determining the annual allowance and the actual allowance for doubtful account as computed at the end of the year.

LHAs must base such collection loss write-offs on the following criteria:

(1) The LHA has adopted and is complying with an aggressive rent collection policy (i.e. late notice, dunning notice, notice to quit, opportunity for discussion where applicable, etc.);

(2) A tenant has vacated for at least one year, and the LHA's diligent pursuit of arrearages has been unsuccessful (documentation of collection efforts must be submitted with request to (write off);

(3) A tenant dies and the account is uncollectable from the estate. The LHA through its counsel, if applicable, should immediately contact the Probate Court in its county to file a claim against the estate of the deceased tenant. The staff of the Probate Court will assist in this effort should LHA staff have questions; and

(4) Dormant (no activity in 12 months) vacated tenant accounts receivables which exceed two (2) years may remain on an authority's books only if the LHA can show just reason for it. Those vacated tenant accounts receivables which are over 18 months old, which are not written off, must have a written explanation in the file of why they are remaining on the active accounts receivable ledger.

<u>4580: Interest Expense</u>

The debit balance in this account represents the interest expense paid and accrued on loans and notes payable. This debt can be from operating borrowings or capital borrowings. This account includes interest payments on debt service for Section 8 New Construction or Substantial Rehabilitation developments.

<u>4590: Other General Expense</u>

This account represents the cost of all items of general expenses for which no specific account is prescribed in the general group of accounts. This account includes the principal debt service payment for Section 8 New Construction or Substantial Rehabilitation developments.

<u>4610: Extraordinary Maintenance – Non-Capitalized</u>

This account should be debited with all *costs* (labor, materials and supplies, expendable equipment, and contract work) of repairs, replacements (but not replacements of non-expendable equipment), and rehabilitation of such a substantial nature that the work is clearly not a part of the routine maintenance and operating program. The items charged to this account should not increase the useful life or value of the asset being repaired. These items are not capitalized and are not added as an increase to fixed assets at the time of completion. Nor are these items depreciated.

Examples of this would be cycle painting of apartments, boiler replacement, hot water take replacement etc.

<u>4611: Equipment Purchases – Non – Capitalized</u>

This account should be debited with the costs of equipment that does not meet the LHA's criteria for capitalization. Because these items are being expended when paid, they should not be categorized as a fixed asset and therefore will not be depreciated.

These items include stoves, refrigerators, small tools, most computers and software, etc.

The budget is a planning tool and as our portfolio ages it is essential that LHAs evaluate their properties annually and plan for extraordinary maintenance. To that end DHCD very strongly recommends that for all 400-1 operating budgets, depending on the age of the portfolio and condition, that LHAs spend between $100 and $500 a year per unit in Extraordinary Maintenance, Equipment Purchases, Replacement of Equipment, and Betterments & Additions to ensure that the aging public housing stock is preserved. Budgets that are not submitted within this range will be carefully scrutinized and are likely to be reverted unless an LHA' s reserves are below minimum and the LHA does not have the capacity to contribute to reserves.

4715: Housing Assistance Payments

This account should be debited will all housing assistance payments paid to landlords for the MRVP program on a monthly basis.

4801: Depreciation Expense

This account should be debited with annual fixed asset depreciation expense as determined by the LHA's capitalization policy. (See DHCD Accounting Manual for State-Aided Programs, Section 16)

7520: Replacement of Equipment - Capitalized

This account should be debited with the acquisition cost (only the net cash amount) of non-expendable equipment purchased as a replacement of equipment of substantially the same kind. These items meet the LHA's criteria for capitalization and will also be added to fixed assets and therefore depreciated over the useful life

7540: Betterments & Additions - Capitalized

This account should be debited with the acquisition cost (only the net cash amount) of nonexpendable equipment and major non-routine repairs that are classified as a betterment or addition. These items meet the LHA's criteria for capitalization and will also be added to fixed assets and therefore depreciated over the useful life of the asset.

Examples are: major roof replacement, structural repairs such as siding, major paving work, new truck, new copier, etc.

In accordance with GAAP accounting, inventory purchases (Replacement of Equipment and Betterments & Additions) are now distinguished between capitalized and non-capitalized items. Any inventory purchase greater than $1,000 is required by DHCD to be capitalized. LHAs may adopt a capitalization policy which capitalizes inventory purchases at a lesser amount than the $1,000 requirement (i.e. $500), however, no capitalization policy can have an amount higher than $1,000. (Please reference DHCD' s Accounting Manual for State-Aided Programs, Section 15, D for further detail.)

Operating Reserve and Operating Reserve Analysis Form

Level funding, combined with certain costs beyond the control of the authorities, have had a dramatic impact upon LHA operating reserve balances. Recognizing this, DHCD will approve in certain cases operating budgets that have fallen below the recommended 40% of full operating reserves. It is DHCD' s anticipation that as the economy improves, LHAs will then be able to replenish their operating reserves to a satisfactory level. (Please note that the term *maximum reserve* has been replaced by the term *full reserve*.)

DHCD will negotiate on a case by case basis with small LHAs that have 25 units or less to establish an acceptable full reserve level. This is required due to the low level of reserve established based on the formula (50% of the Total Operating Expenditures).

This year your operating reserve position will be adversely affected by many of the accounting transactions required by GAAP accounting. In an effort to provide an appropriate operating reserve comparison from prior years to the current year, DHCD has provided the Operating Reserve Analysis Form to adjust your GAAP operating reserve balance to the prior DHCD accounting method.

<u>Net Assets (Balance Sheet Account 2806 formerly Operating Reserve Account 2590)</u>

LHAs whose reserves are above minimum and who have an acceptable rating may make unforeseen, unplanned/unanticipated charges against/to the operating reserve provided that such expenses are less than $10,000 per purchase and, that the reserve remains above minimum after the transaction. For all LHAs expenses of $10,000 or more, which have not already been approved by DHCD in the budget process, will need prior Department approval. If an authority's reserves are below minimum the following Department approvals are required.

$ 0 - 10,000	- telephone approval
$10,000 +	- written approval

The Other Expenses and Capital Expenditures sections of the budget, like the rest of it, is a blueprint. All predictable and/or planned expenditures for the upcoming 12 months need to be included in the schedule of expenses. DHCD is granting the latitude to incur these costs without prior approval to most authorities (those with adequate reserves and an acceptable rating) to assist them in making needed expenditures in a timely manner for unanticipated or emergency situations that arise during the fiscal year. It is not meant to be a way around the budget process, and it definitely is not meant to be, nor can it be, a way to circumvent the bid laws of the Commonwealth. LHAs must adhere to the bid laws during procurement. LHAs are encouraged to show as many expenses on their budget as they can knowingly predict. Only expenditures known to DHCD will be taken into consideration when the Department is determining the LHA's level of operating reserves available to be dedicated to an LHA's contribution toward modernization. Authorities which abuse this privilege will have it revoked.

Contracts for capital work in amounts less than $10,000 that are executed by the Authority as a result of expenditures made pursuant to the above do not require Department review and approval, provided that the Authority follows the applicable bidding requirements in accordance with applicable statute(s). The Department has temporarily waived the provisions of the CFA that requires housing management review and approval for the contracts so mentioned.

All modernization work approved by the Department and funded by LHA reserves will continue to be allowed to use up to 5% of the amount for administrative costs. These costs may be budgeted at the discretion of the LHA, subject to DHCD's approval.

IV. SPECIAL ENERGY INCENTIVES FOR AUTHORITIES

As stated in the utility section above, DHCD regards energy and water consumption as controllable by local housing authorities. As such, authorities will be able to share in the savings resulting from the installation of cost-effective energy and water conservation measures at their state-aided developments.

This strategy represents an opportunity for authorities to take control of utility costs by encouraging implementation of conservation measures which result in prudent consumption of energy resources. If approved by DHCD, proposals will be funded through the utility portion of the Authority's operating budget lines 4360 (Conservation Materials) and 4390 (Other).

The Department will accept proposals from LHAs or assist you in developing proposals on a wide variety of energy and water efficiency measures. These include, but are not limited to:

- The hiring of consultants to perform detailed energy and water audits.
- The replacement of toilets, showerheads, and faucet aerators with low flush/flow type equipment.
- The installation of new high-efficiency heating and/or domestic hot water equipment.
- The replacement of interior and exterior lighting with high efficiency type fixtures and lamps.
- The installation of insulation and/or air sealing measures.

The idea is for all of us to save money. If we are going to be able to fund housing authorities adequately, in the future, we will have to become more efficient. By conserving energy we build reserves at our retained revenue authorities where they will keep 100% of the savings. Deficit authorities will be able to retain up to 50% of any savings, after payment for the cost of the improvements. Our ability to access this money is limited only by our inaction on energy conservation. In the last several years, we had positive movement in a number of areas but we need to do more.

"Savings," in this case, will not be a simple calculation. Because of the fluctuating prices of the different fuels, a simple comparison of one year's expenditure to the last is inappropriate. In addition, the severity/mildness of the heating season must be taken into consideration in determining savings. Therefore, "savings" will be determined by comparison of actual rates of consumption for two years, adjusted by degree days for the severity of the winter.

Preliminary proposals may be discussed with your housing management specialist. Specific proposals must include a cost/savings projection, appropriate technical design information and other relevant information which supports the measure. DHCD will accept proposals from LHAs on a wide spectrum of energy and water savings measures. LHAs will

need to submit a summary comparison of consumption, both current and projected, for each utility source affected. Requests this year should be limited to $100,000 in improvements which will generate savings that are equal to or greater than the installation cost of the equipment within a five (5) year period. Design fees are not to exceed a maximum of $10,000.

V. APPENDICES

BOTTOM LINE BUDGETING FOR HOUSING AUTHORITIES WITH RETAINED REVENUE

Definition of an LHA Eligible for Bottom Line Budgeting

An eligible LHA is an LHA whose operating reserve is above full, does not owe DHCD money (excluding LHAs who are in the process of negotiating the amount owed), had retained revenue at the end of the previous fiscal year and has a management rating of Acceptable Performance.

LHAs that have had Mod awards in which DHCD has taken or assigned operating reserve monies to pay for part or all of a work plan will not have to comply with the above maximum rule. LHA reserves will need to be at 70% in year 2, 90% in year 3 and 100% at year 4. Any additional taking of reserves starts the process again.

Definition of Budget Flexibility

The ability to add staff positions such as service coordinators and FSS (Family Self-Sufficiency) coordinators, exceed the non-utility bottom line cap by allowing the spending of the surplus earned in the current year, and to spend operating reserve funds.

Conditions for Budget Flexibility

In order to be eligible for budget flexibility an LHA must:

1) meet the definition of an eligible LHA;

2) have submitted a Capital Improvement Inventory System (CIIS) and Capital Improvement spending plan approved by DHCD' s modernization and asset management staffs;

3) certify that it is, and will remain, in compliance with all state procurement laws;

4) operate a preventive maintenance plan approved by the Bureau of Housing Management;

5) have and strictly follow an annual unit and property inspection program;

6) comply with DHCD' s limited out of state travel policy from state funds;

7) set up a restricted maintenance reserve account at year' s end for any excess cash generated by state program budgets. Spending from this account will be allowed if it is consistent with DHCD approved Capital Improvement Plan;

8) limit Executive Director salary increases subject to DHCD budget guidelines; (minimum hours and accurate timesheets are required);

9) follow DHCD hiring guidelines for all staff hires;

10) make appropriate charges to each line item as allowed in DHCD budget guidelines;

11) limit maintenance salaries on state budgets to Department of Labor and Workforce Development (DLWD) rules or as allowed by the Budget Guidelines or existing salaries as approved in existing collective bargaining agreements; and

12) file accurate budgets and operating statements within the required time frame.

DHCD reserves the right to withdraw bottom line budget authority if any of the above conditions are not met.

LHAs are reminded that they are responsible for any non-utility cost budgeted above the allowable non-utility expense level. Housing authorities that fail to realize the retained earning they budget cannot turn to DHCD for additional assistance until their income drops below the ANUEL, (Allowable Non-Utility Expense Level), plus actual utility cost, and then only for that difference.

Appendix B

Budget Request

Lha Name :

Program :

No. of Units :

Unit Months :

Fiscal Year Ending :

			PRIOR YEAR APPROVED BUDGET		LHA REQUEST	
Line	ACCT	Classification	PUM	Amount	PUM	Amount
		REVENUE				
1	3110	Shelter Rent - Tenants				
2	3115	Shelter Rent - Federal Section 8				
3	3190	Nondwelling Rentals				
4	3400	Administrative Fee - MRVP				
5	3610	Interest on Investments - Unrestricted				
6	3611	Interest on Investments - Restricted				
7	3690	Other Revenue				
8	3691	Other Revenue - Retained				
9	3801	Operating Subsidy - DHCD (4001)				
10	3802	Operating Subsidy - MRVP Landlords				
11	3920	Gain/Loss From Sale/Disp. of Prop.				
12	3000	TOTAL REVENUE				
		EXPENSES				
13	4110	Administrative Salaries				
14	4120	Compensated Absences				
15	4130	Legal				
16	4140	Members Compensation				
17	4150	Travel & Related Expenses				
18	4170	Accountig Services				
19	4171	Audit Costs				
20	4180	Penalties & Interest				
21	4190	Administrative Other				
22	4100	TOTAL ADMINISTRATION				
23	4230	Tenant Organization				
24	4310	Water				
25	4320	Electricity				
26	4330	Gas				
27	4340	Fuel				
28	4360	Energy Conservation				
29	4390	Other				
30	4300	TOTAL UTILITIES				
31	4410	Maintenance Labor				
32	4420	Materials & Supplies				
33	4430	Contract Costs				
34	4400	TOTAL MAINTENANCE				
35	4510	Insurance				
36	4520	Payment in Lieu of Taxes				
37	4540	Employee Benefits				
38	4570	Collection Loss				
39	4580	Interest Expense				
40	4590	Other General Expense				
41	4500	TOTAL GENERAL EXPENSES				
42	4610	Extraordinary Maintenance				
43	4611	Equipment Purchases - Non Capitalized				
44	4715	Housing Assistance Payments				
45	4801	Depreciation Expense				
46	4600	TOTAL OTHER EXPENSES				
47	4000	TOTAL EXPENSES				
48	2700	NET INCOME (DEFICIT)				
		CAPITAL EXPENDITURES				
49	7520	Replacements of Equip. - Capitalized				
50	7540	Betterments & Additions - Capitalized				
51	7500	TOTAL NONOPERATING EXPENDITURES				
52	7600	EXCESS REVENUE OVER EXPENSES				

LHA Requested Comments

Appendix C1

Operating Subsidy Calculation "ANUEL"
(Allowable NonUtility Expense Level)

LHA Name: Enfield
Fiscal Year Ending: 12/31/2005

Program No.: 400-1 *Rev:* 0 (Original)

		Budgeted Amount
(1)	Revenue (Lines 1+2+3+5+7 from Budget)	$ (1)
(2)	Non-Utility Cost (ANUEL-Prior Year Approved)	$)(2)
(3)	Allowable Increase ((2) * 0%) (ANUEL)	($ 0)(3)
(4)	DHCD Approved Operating Costs Exemptions	($ 0)(4)

	Description	Amount
a.		$
b.		$
c.		$
d.		$
e.		$
f.		$

(5)	Utilities	($)(5)
(6)	Operating Subsidy Prior to Approved Exemptions ((1)-(3)-(4)-(5)) (If Results are a Positive Number Use Zero)	$ 0 (6)
(7)	Line (6) (If -0- Enter -0- or Convert Negative Amount To Be Positive)	$ 0 (7)
(8)	DHCD Approved Exemptions Direct Reimbursement	$ 0 (8)

	Description	Amount
a.		$
b.		$
c.		$
d.		$
e.		$
f.		$

(9)	Operating Subsidy - DHCD ((7)+(8)) (Line 9 of Budget)	$ 0 (9)

Please check and/or enclose the following items:

- ☐ BUDGET CERTIFICATION HAS BEEN MAILED TO DHCD
- ☐ NON-UTILITY EXPENSE LEVEL AT 0% or adjusted PUM*
- ☐ ACCOUNT 4110 WITHIN 0% INCREASE AS SET IN BUDGET GUIDLINES*
- ☐ ACCOUNT 4410-RATES DO NOT EXCEED DLWD OR ZERO (0) PERCENT
- ☐ NON-ROUTINE EXPENDITURE REQUEST DOES NOT BRING RESERVES BELOW MINIMUM UNLESS REQUEST IS FOR HEALTH OR SAFETY ITEM(S)
- ☐ EXPLANATION FOR PRIOR YEAR ADJUSTMENT PROVIDED, IF APPLICABLE

***If Budget request varies from amount allowed within Budget Guidelines, explain in E-Mail**

FOR LHAS REQUESTING RETAINED REVENUE STATUS:

- ☐ LHA CERTIFIES COMPLIANCE WITH CONDITIONS OUTLINED IN BUDGET GUIDLINES (See Page A-2)

AMOUNT REQUESTED ABOVE ANUEL PLUS ALLOWABLE EXEMPTIONS $ 0

PURPOSE:

Appendix C2

DEPRTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
AUDITORS' APPENDIX C CALCULATION
CALCULATION OF SUBSIDY EARNED AND CALCULATION OF ESTIMATED INTERIM OR YEAR-END OPERATING RESERVE BALANCE
LHA: HOUSING AUTHORITY Program No.: 400-1
FISCAL YEAR ENDED: MARCH 31, 2001 Form 051-5

QUARTERS COVERED: 1 1-2 1-3 (1-4)

Section I - Calculation of Operating Subsidy Earned **AUDITORS' NOTE: Data is to be entered in shaded boxes only.**

1.	Annual Budgeted Non-Utility Cost (Line 30, Column 1, 051-1) **Select appropriate quarter below.**	$0.00
2.	First Quarter - Line 1 * 25%	
3.	Second Quarter - Line 1 * 50%	
4.	Third Quarter - Line 1 * 75%	
5.	Fourth Quarter - Line 1 * 100%	
6.	Budgeted Non-Utility Expense for Period (Line 2,3,4, or 5 above)	$0.00
7.	Line Item Overruns (Use at Year-end Only)	
	a. Account 4110 (line 9, Columns 1 & 4, 051-1) — Budget $0.00; Actual $0.00; Overruns $0.00	
	b. Account 4150 (line 12, Columns 1 & 4, 051-1) — Budget $0.00; Actual $0.00; Overruns $0.00	
8.	Actual Utility Expense (Line 35, column 4, 051-1 Current Quarter)	$0.00
9.	Actual Income (Line 6 Column 4, 051-1 Current Quarter)	$0.00
10.	Adjusted Budgeted Deficit (Surplus) (Line 6, minus 7A, Minus 7B, plus 8, minus 9) (If Total is a (Surplus) enter -0-)	$0.00
11.	Max Operating Reserve Minus Year-End Operating reserve (50% of line 36, page 1 of Operating budget (form 051-1) - Line 4 section II below. Enter Line 36 Total Budgeted Operating Expenditures(Acct 4000) $0.00 (This no. equals the largest amount of deficit which may be funded at an LHA) **NOTE: Complete Section II below prior to this step.**	$0.00
11a.	If (11) is greater than 10, bring 10 forward to 12; If (11) is less than 10, enter actual deficit Before Subsidy (Line 37, Column 4, 051-1 Current Quarter, minus overruns in 4110 and 4150, or (11) whichever is greater on Line 12.	Amount forwarded to Line 12 below
12.	Lesser of Line 10 or Line 11 (Line 12 should be brought forward to Line 38 Forr **[AUDITORS' NOTE: Lesser of Line 10 or Line 11 is not entered; Line 11a calculation is forwarded and entered.]**	$0.00
13.	Operating Subsidy contribution received for current Fiscal Year (Balance 7300 Account)	$0.00
14.	Insert this amount in account 1125 - Underpayment due from DHCD (If line 12 exceeds 13)	$0.00
15.	Credit account 2118 - Overpayment due to DHCD (If line 13 exceeds 12)	$0.00

SECTION II - Calculation of Estimated Year-End Operating Reserve Balance

1.	Operating Reserve Balance Beginning of Year: **APRIL 1, 2000** (Section II, Line 4, 051-5 Prior Fiscal Year)	$0.00
2.	Add: Provision for Operating Reserve (Line 25, Column 4, 051-1 Current Period)	$0.00
3.	Add Net Income or Subtract Deficit (Line 47, Column 4, 051-1 Current Period)	$0.00
4.	Estimated Interim or Year-end Operating Balance	$0.00

AUDITORS' COMPARISON RECAP:

NEW AMOUNTS DUE TO OR DUE FROM DHCD:

Calculation of New Overpayment Due to DHCD:

Line 15 Above - Overpayment due to DHCD	$ -
Add: Original calcualtion due from DHCD on Form 51-5	$ -
Less: Original calculation due to DHCD on Form 51-5	$ -
Amount Owed to DHCD from Authority **[If Negative; amount is owed to Authority]**	$ -

Calculation of New Underpayment Due from DHCD:

Line 14 Above - Underpayment due from DHCD	$ -
Add: Original calcualtion due to DHCD on Form 51-5	$ -
Less: Original calculation due from DHCD on Form 51-5	$ -
Amount Owed from DHCD to Authority: **[If negative; amount is owed to DHCD.]**	$ -

Appendix D

Operating Reserve Analysis

LHA Name:
Fiscal Year Ending:

Program No.:

Rev: 0 (Original)

LINE #			ACTUAL AMOUNT	DHCD MODIFICATION
(1)	Maximum Reserve (1/2 of Line 47 from Budget)		$ (1)	$ (1)
(2)	Maximum Reserve (40% of Line (1) above)		$ (2)	$ (2)
(3)	Operating Reserve Balance End of Prior Year (FY 2003)		$ (3)	$ (3)
(4)	Capital Reserve Balance End of Prior Year (FY 2003) **(Sec 8 New/Sub Rehab ONLY)**		$ (4)	$ (4)
(5)	Adjustments - Current Year (FY 2004)			
	Account No.	**Budget Amount**		
	a. 7520 (Line 49 of Budget)	$	($)(5a)	($)(5a)
	b. 7540 (Line 50 of Budget)	$	($)(5b)	($)(5b)
(6)	Net Income (Loss) Current Year (Estimate 12 mos.)		$ (6)	$ (6)
(7)	Operating Reserve Balance End of Current Year (3)-(5)+(6)		$ (7)	$ (7)
(8)	Adjustments - Budget Year (FY 2005)			
	Account No.	**Budget Amount**		
	a. 7520 (Line 49 of Budget)	$	($)(8a)	($)(8a)
	b. 7540 (Line 50 of Budget)	$	($)(8b)	($)(8b)
(9)	Net Income (Deficit) Budget Year (Line 48 of Budget)		$ (9)	$ (9)
(10)	Operating Reserve Balance End of Budget Year (7)-(8)+(9)		$ (10)	$ (10)

E. Fee Accountant Schedule

1. Consolidated Conventional Program

Fee Accountant Schedule for consolidated programs (c.200, c.667, c.705) at a single program local housing authority.

Category	Unit Range	Monthly Fee	Annual Fee
1	1-24	$226.00	$2,712.00
2	25-74	$298.00	$3,576.00
3	75-99	$333.00	$3,996.00
4	100-124	$348.00	$4,176.00
5	125-149	$378.00	$4,536.00
6	150-174	$411.00	$4,932.00
7	175-199	$443.00	$5,316.00
8	200-224	$474.00	$5,688.00
9	225-249	$506.00	$6,072.00
10	250-274	$537.00	$6,444.00
11	275-299	$568.00	$6,816.00
12	300-324	$585.00	$7,020.00
13	325-349	$612.00	$7,344.00
14	350-374	$617.00	$7,404.00
15	375-399	$632.00	$7,584.00
16	400-449	$648.00	$7,776.00
17	450-499	$665.00	$7,980.00
18	500-549	$679.00	$8,148.00
19	550-599	$696.00	$8,352.00
20	600-649	$711.00	$8,532.00
21	650-699	$727.00	$8,724.00
22	700+	$759.00	$9,108.00

Program component: $45.00 per month for each additional program.

The Department will allow a bottom-line exemption in the amount of $1,000 per housing authority to allow LHAs to compensate fee accountants for the retooling and set up costs associated with the GAAP Accounting conversion of the authority books, financial reports and budget tools. As the effort involved will vary greatly from authority to authority based on many factors (including the number of programs, size of the programs in terms of employees and financial operations), additional fees may be negotiated between the housing authority and the fee accountant on a case-by-case basis as needed. Any additional fees agreed upon between the authority and their fee accountant (beyond the $1,000 exemption provided by DHCD) must be absorbed within their approved ANUEL.

Section 8 programs remain as individual accounting units to meet HUD requirements under this schedule.

2. Fee Accountant Schedule for Consolidated 689 Program and LHA owned Section 8 programs. The 689 Programs are now consolidated for budget and accounting purposes.

Category	Unit Range	Monthly Fee	Annual Fee
1	1-18	$127.00	$1,524.00
2	19-35	$158.00	$1,896.00
3	36-60	$190.00	$2,280.00
4	61+	$221.00	$2,652.00

Program component: A payment of $45.00 per month for each project is allowed for all projects having separate vendors and separate LHA reporting requirements. This additional fee is available only if the LHA requires that separate books be maintained on each program. These books must be complete, able to function separately and kept at the LHA itself.

DHCD added a year-end requirement for budgets which began July 1, 1997 and which will continue in FY04. That requirement is a year-end breakdown of expenses by program.

3. Massachusetts Rental Voucher Program.

A condition of the contract between an LHA and a Fee Accountant is a requirement that the Fee Accountant offer sufficient services to an LHA so that the LHA is in compliance with the financial reporting/accounting requirements of DHCD. The fee for these services is to be negotiated recognizing the constraints of the existing administrative fees for the Program subject to DHCD approval.

4. Capital Maintenance (Modernization) and Development Programs

The fees for accounting services for programs using capital funds should be negotiated between the LHA and the Accountant subject to DHCD approval of the entire Capital Budget. The fees will be part of LHA Administration (1410). For old programs where sufficient budget authority does not exist, fees will be set by agreement between the LHA, the Accountant and DHCD subject to the final approval by the Directors of the Bureau of Housing Development and Construction and the Bureau of Housing Finance.

5. Reporting: : LHAs must submit the following reports to DHCD. The reports must be complete, accurate, and timely. They must be provided to each of the board members. Board members must sign the Budget Certification as part of the annual budget submission which now includes the following language: " We the undersigned board members of the

housing authority further certify that we have received and read the quarterly operating statements for the previous quarters for Program No. ."

1. **ALL AUTHORITIES:**

400 Program (c.200, c667, c.705 consolidated)

Balance Sheet 051-2 monthly (not submitted to DHCD)
Budget comparison by account monthly (not submitted to DHCD)
Quarterly 051-1,
Year-end 051-1, 2, 3, 4 & 5
Year-end breakdown of expenses by program 051-1
Year-end breakdown of income by development

689 Program (consolidated)

Balance Sheet 051-2 monthly (not submitted to DHCD)
Quarterly 051-1,
Year-end 051-1, 2, 3, 4 & 5

Section 8 Programs (LHA owned)

All reports required to be submitted to DHCD quarterly

Capital Maintenance and Development
Forms 080, 081, 090, & 098

a. Quarterly until construction contract is signed;
b. Monthly until construction contract is complete;
c. Quarterly thereafter until project is closed out.

2. **RETAINED REVENUE AUTHORITIES:**

400 Program
Balance Sheet 051-2 monthly (not submitted to DHCD)
Operating Statement & TAR 051-1 & 4 Semi-annually
Year End 051-1, 2, 3, 4, & 5
Year End breakdown of expenses by program 051-1

689 Program (consolidated)
Balance Sheet 051-2 monthly (not submitted to DHCD)
Operating Statement & TAR 051-1 & 4 Semi-annually

Year End 051-1, 2, 3, 4 & 5

Section 8 Programs (LHA Owned)

All reports required to be submitted to DHCD Quarterly

Capital Maintenance and Development
Forms 080, 081, 090, & 098

a. Quarterly until construction contract is signed;
b. Monthly until construction contract is complete;
c. Quarterly thereafter until project is closed out.

Contracts:

DHCD must receive and approve all contracts for accounting services. While DHCD is not a party to the contracts, no contract is valid until it has been reviewed and approved by DHCD.

The contract should contain at a minimum the following provisions:

A. <u>Accounting Services</u>

1. Review the propriety of distribution of all cash receipts and cash disbursements in each of the LHA programs.

2. Enter applicable general journal and standard journal entries, tenants accounts receivable, investments activity, revolving fund, quarterly, semi-annual and annual amortizations and accruals consistent with state guidelines to the books of original entry.

3. Review reconciliation of all monthly bank statements and assure agreement with the general ledger balances.

4. Post all cash receipts, cash disbursements, general journal and standard journal entries from the books of original entry to the general ledgers.

5. Review and assure reconciliation of monthly recapitulation of tenants accounts receivable to the general ledger balance for each program.

6. Assure reconciliation of all investment securities and passbook transactions to the general ledger.

7. Assure that the general ledger is in balance each month and that all subsidiary account balances are in agreement with the applicable general ledger control account for all 1400 and 4000 control accounts.

8. Must attend, at least, two board meetings per year, one to present the proposed operating budget, and the second to present a mid-year progress report of budgeted expenditures to actual expenditures, or more often as agreed to by the board and the fee accountant.

9. Prepare and submit to the executive director budget comparisons (budget vs. actual) by account monthly including variance report with written explanation of variances 10 percent or greater.

10. Report requirements to be prepared and submitted to Executive Director.

a. **ALL AUTHORITIES**

400 Program (c.200, c667, c.705 consolidated)

Balance Sheet 051-2 monthly (not submitted to DHCD)
Budget comparison by account monthly (not submitted to DHCD)
Quarterly 051-1,
Year-end 051-1, 2, 3, 4 & 5
Year-end breakdown of expenses by program 051-1
Year-end breakdown of income by development

689 Program (consolidated)

Balance Sheet 051-2 monthly (not submitted to DHCD)
Quarterly 051-1,
Year-end 051-1, 2, 3, 4 & 5

Section 8 Programs (LHA owned)

All reports required to be submitted to DHCD quarterly

Capital Maintenance and Development
Forms 080, 081, 090, & 098

a. Quarterly until construction contract is signed;
b. Monthly until construction contract is complete;
c. Quarterly thereafter until project is closed out.

b. **RETAINED REVENUE AUTHORITIES:**

400 Program
Balance Sheet 051-2 monthly (not submitted to DHCD)
Operating Statement & TAR 051-1 & 4 Semi-annually
Year End 051-1, 2, 3, 4, & 5
Year End breakdown of expenses by program 051-1

689 Program (consolidated)
Balance Sheet 051-2 monthly (not submitted to DHCD)
Operating Statement & TAR 051-1 & 4 Semi-annually
Year End 051-1, 2, 3, 4 & 5

Section 8 Programs (LHA Owned)

All reports required to be submitted to DHCD Quarterly

Capital Maintenance and Development
Forms 080, 081, 090, & 098

a. Quarterly until construction contract is signed;
b. Monthly until construction contract is complete;
c. Quarterly thereafter until project is closed out.

B. Financial Consulting Services

1. Analyze and interpret all financial statements and all related accounting and financial data, and review and discuss with the executive director and/or other appropriate personnel, all relevant financial information to responsible management personnel.

2. Assist in the preparation of annual state budgets and budget revisions consistent with DHCD budget and accounting guidelines. At the request of the executive director or board, attend board meetings or meetings where budget matters are discussed. (see #5).

3. Assist the LHA in their discussion with DHCD as they relate to financial matters of which they may be of assistance in providing interpretation of complex financial and funding problems.

4. Assure the proper computation of operating subsidy funds and prepare necessary journal entries to assure the receipt of such funds.

5. Must attend, at least, two board meetings per year, one to present the proposed operating budget, and the second to present a mid-year progress report on budgeted expenditures vs. actual expenditures, or more often as agreed to by the board and fee accountant at the request of the executive director or LHA board.

Also, the LHA may wish to contract for Additional Accounting/Financial Consulting Services. If so, the LHA has two options:

1. Addendum to existing contract on hourly basis, total not to exceed 10% of the base contract or $1,000, whichever is less (with DHCD approval).

2. LHA may procure additional funding/financial services per Chapter 30B.

The Director of Housing Management or designee can help your authority determine whether its fee accountant is providing a full range of services. Please contact the Director if you have any questions about accounting services.